

SUTTER BUTTE FLOOD CONTROL AGENCY

ANNUAL FINANCIAL REPORT

For the Three Fiscal Years Ended  
June 30, 2010

SUTTER BUTTE FLOOD CONTROL AGENCY  
FINANCIAL STATEMENTS

JUNE 30, 2010

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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 three fiscal years ended June 30, 2010, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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, 2010, and the respective changes in financial position for the three fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements effective July 1, 2007, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*.

As discussed in note 1 of the notes to the basic financial statements effective July 1, 2008, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards*.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with the *Government Auditing Standards*, we have also issued a report dated December 21, 2011, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule of the General Fund on page 21 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 for 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 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 21, 2011

**Sutter Butte Flood Control Agency**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 3,048,377
Accounts receivable	256,063
Prepaid expenses	<u>500</u>
<b>Total Assets</b>	<u>3,304,940</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>145,502</u>
<b>Total Current liabilities</b>	<u>145,502</u>
Noncurrent liabilities:	
Interest payable	270,036
Loans payable	<u>5,606,406</u>
<b>Total Noncurrent liabilities</b>	<u>5,876,442</u>
<b>Total Liabilities</b>	<u>6,021,944</u>
<b>NET ASSETS</b>	
Restricted for capital projects	2,876,530
Unrestricted	<u>(5,593,534)</u>
<b>Total Net Assets (Deficit)</b>	<u>\$ (2,717,004)</u>

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency  
Statement of Activities  
For the Three Fiscal Years Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Flood protection	\$ 4,448,264	\$ -	\$ -	\$ (2,715,886)
Interest on long-term debt	270,036			(270,036)
Total governmental activities	<u>\$ 4,718,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,985,922)</u>
		General revenues:		
		Investment earnings		266,418
		Other revenues		2,500
		Total general revenues		<u>268,918</u>
		Change in net assets		(2,717,004)
		Net assets beginning of fiscal year		
		Net assets (deficit) end of fiscal year		<u>\$ (2,717,004)</u>

See accompanying notes to basic financial statements

**Sutter Butte Flood Control Agency**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund	Capital Projects Fund	Total
<b>ASSETS</b>			
Cash and investments	\$ 363,093	\$ 2,685,284	\$ 3,048,377
Accounts receivable		256,063	256,063
Prepaid items	500		500
Total Assets	<u>\$ 363,593</u>	<u>\$ 2,941,347</u>	<u>\$ 3,304,940</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 80,685	\$ 64,817	\$ 145,502
Total Liabilities	<u>80,685</u>	<u>64,817</u>	<u>145,502</u>
<b>FUND BALANCES</b>			
Reserved for:			
Prepaid items	500		500
Capital projects		2,876,530	2,876,530
Unreserved,			
Undesignated reported in:			
General Fund	282,408		282,408
Total Fund Balances	<u>282,908</u>	<u>2,876,530</u>	<u>3,159,438</u>
Total Liabilities and Fund Balances	<u>\$ 363,593</u>	<u>\$ 2,941,347</u>	<u>\$ 3,304,940</u>

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, 2010**

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FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,159,438

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

LONG-TERM DEBT

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 the government-wide statement of net assets, it is recognized in the period that it is incurred.

(270,036)

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:

Loans payable

(5,606,406)

TOTAL NET ASSETS (DEFICIT), GOVERNMENTAL ACTIVITIES

\$ (2,717,004)

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 Three Fiscal Years Ended June 30, 2010**

	General Fund	Capital Projects Fund	Total
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 1,732,378	\$ 1,732,378
Interest income and investment earnings	35,734	230,684	266,418
Other revenues	2,500		2,500
	<u>38,234</u>	<u>1,963,062</u>	<u>2,001,296</u>
<b>EXPENDITURES</b>			
Current:			
Operational:			
Telephone	689		689
Postage and freight	490		490
Advertising	1,596		1,596
Forms and supplies	127		127
Printing and binding	1,543		1,543
Professional services	1,302,195		1,302,195
Dues and subscriptions	24,913		24,913
Rentals	6,828		6,828
Insurance	40,665		40,665
Other materials and supplies	2,686		2,686
Capital:			
USACE Feasibility Study		458,638	458,638
Star Bend Set Back Levee Contribution to LD1		1,620,000	1,620,000
Assessment District Formation		602,460	602,460
Early Implementation Project Preliminary Design and Application		385,434	385,434
	<u>1,381,732</u>	<u>3,066,532</u>	<u>4,448,264</u>
Total Expenditures			
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	<u>(1,343,498)</u>	<u>(1,103,470)</u>	<u>(2,446,968)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from issuance of long-term debt	1,491,406	4,115,000	5,606,406
Transfers in	400,000	265,000	665,000
Transfers out	(265,000)	(400,000)	(665,000)
	<u>1,626,406</u>	<u>3,980,000</u>	<u>5,606,406</u>
Total Other Financing Sources (Uses)			
<b>NET CHANGE IN FUND BALANCES</b>	282,908	2,876,530	3,159,438
<b>FUND BALANCES, JULY 1, 2007</b>			
<b>FUND BALANCES, JUNE 30, 2010</b>	<u>\$ 282,908</u>	<u>\$ 2,876,530</u>	<u>\$ 3,159,438</u>

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 Three Fiscal Years Ended June 30, 2010**

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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 \$ 3,159,438

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

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 change for the current three fiscal years:

Interest payable (270,036)

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 (5,606,406)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (2,717,004)

See accompanying notes to basic financial statements

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**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, 2010.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**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.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**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. The Agency does not currently have a capital asset policy in place.

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, 2010, there were no employees of the Agency, and therefore, there is no compensated absences liability.

***H. Net Assets and Fund Equity***

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

*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.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***I. Fund Balances - Reservations and Designations***

In the Fund Financial Statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

***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) Statements No. 48 and No. 50 during the fiscal year ended June 30, 2008. The Agency implemented the requirements of GASB Statements No. 45, No. 49, No. 52, No. 55, and No. 56 during the fiscal year ended June 30, 2009. The Agency implemented the requirements of GASB Statements No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

**GASB Statement No. 45**

This Statement is effective for periods beginning July 1, 2008. This Statement establishes standards for accounting and financial reporting for state and local government employees that offer "Other Postemployment Benefits" (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees' years of service. The implementation of this Statement did not have an effect on these financial statements.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. New Accounting Pronouncements, Continued*

GASB Statement No. 48

This statement is effective for periods beginning after December 15, 2006 and establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 49

This Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 50

The statement is effective for periods beginning after June 15, 2007. This statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 51

This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce the inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. New Accounting Pronouncements, Continued*

GASB Statement No. 52

This Statement is effective for periods beginning after June 15, 2008. The Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53

This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 55

This Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 56

This Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. The implementation of this Statement did not have an effect on these financial statements.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. New Accounting Pronouncements, Continued*

GASB Statement No. 57

This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58

This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

**2. CASH AND INVESTMENTS**

The Agency maintains a cash and investment pool with the City of Yuba City (City) for all funds.

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 cash and investments and the related interest rate risk, credit risk, custodial risk, and concentration of risk.

*A. Cash Deposits*

The Agency pools all operating cash with the City of Yuba City and records the pooled monies as cash and investments.

*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	\$ 3,048,377
Total cash and investments	<u>\$ 3,048,377</u>

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**2. CASH AND INVESTMENTS, Continued**

*B. Summary of Cash and Investments, Continued*

Cash and Investments held by the Agency at June 30, 2010 consisted of the following:

Pooled cash with City of Yuba City	<u>\$ 3,048,377</u>
Total cash and investments	<u><u>\$ 3,048,377</u></u>

*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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
City Cash Pool	None	None	None

**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 three fiscal years ended June 30, 2010, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
General Fund	\$ -	\$ 400,000	\$ 400,000
Capital Projects Fund	265,000		265,000
<b>Total</b>	<u><u>\$ 265,000</u></u>	<u><u>\$ 400,000</u></u>	<u><u>\$ 665,000</u></u>

The 2008/09 fiscal year transfers consisted of a transfer from the General Fund to the Capital Projects Fund of \$265,000 to support the cash flow requirements of the Agency's Capital soft costs related to preliminary hydraulic and geotechnical analyses for the Corps Feasibility Study and Early Implementation Project.

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**4. INTERFUND TRANSACTIONS, Continued**

The 2009/10 fiscal year transfers consisted of a transfer from the Capital Projects Fund to the General Fund of \$400,000 to support increased general Agency administrative costs associated with the formation of the Capital Assessment District.

**5. LONG-TERM DEBT**

**Loans Payable**

Loans payable at June 30, 2010, consisted of the following:

To Yuba City, bears interest at a rate based on the Sutter County pooled treasury rate, which was 4.00%, 2.70%, and 2.25% as of June 30, 2008, 2009, and 2010, respectively. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$133,766. \$ 2,778,203

To Sutter County, bears interest at a rate based on the Sutter County pooled treasury rate, which was 4.00%, 2.70%, and 2.25% as of June 30, 2008, 2009, and 2010, respectively. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$133,766. 2,778,203

To Levee District No. 1, bears interest at a rate based on the Sutter County pooled treasury rate, which was 4.00%, 2.70%, and 2.25% as of June 30, 2008, 2009, and 2010, respectively. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$2,504. 50,000

Total Loans Payable \$ 5,606,406

**Changes in Long-Term Liabilities**

Long-term liability activity for the three fiscal years ended June 30, 2010, was as follows:

	July 1, 2007 Balance	Additions	Reductions	June 30, 2010 Balance	Due Within One Year
<b>Governmental activities:</b>					
Loans Payable	\$ -	\$ 5,606,406	\$ -	\$ 5,606,406	\$ -
Governmental activities Long-term liabilities	<u>\$ -</u>	<u>\$ 5,606,406</u>	<u>\$ -</u>	<u>\$ 5,606,406</u>	<u>\$ -</u>

**Sutter Butte Flood Control Agency**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

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**6. COMMITMENTS AND CONTINGENCIES**

*A. Lawsuits*

The Agency is not a defendant in any lawsuits as of June 30, 2010.

*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, 2010 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, 2010, 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.

**7. 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.

**Sutter Butte Flood Control Agency**  
**Notes to Required Supplementary Information**  
**June 30, 2010**

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**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 budgets.
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 Three Fiscal Years Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Interest income and investment earnings	\$ -	\$ -	\$ 35,734	\$ 35,734
Other revenues			2,500	2,500
<b>Total Revenues</b>			<b>38,234</b>	<b>38,234</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
<b>Operational:</b>				
Telephone	2,800	2,800	689	2,111
Postage and freight			490	(490)
Advertising	1,500	1,500	1,596	(96)
Forms and supplies	7,500	7,500	127	7,373
Printing and binding	4,000	4,000	1,543	2,457
Professional services	1,740,000	1,740,000	1,302,195	437,805
Travel and meetings	2,500	2,500		2,500
Dues and subscriptions	28,700	28,700	24,913	3,787
Rentals	7,000	7,000	6,828	172
Insurance	42,500	42,500	40,665	1,835
Other materials and supplies	6,500	6,500	2,686	3,814
<b>Capital outlay</b>	<b>5,000</b>	<b>5,000</b>		<b>5,000</b>
<b>Total Expenditures</b>	<b>1,848,000</b>	<b>1,848,000</b>	<b>1,381,732</b>	<b>466,268</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,848,000)</b>	<b>(1,848,000)</b>	<b>(1,343,498)</b>	<b>504,502</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of long-term debt			1,491,406	1,491,406
Transfers in	400,000	400,000	400,000	
Transfers out	(265,000)	(265,000)	(265,000)	
<b>Total Other Financing Sources (Uses)</b>	<b>135,000</b>	<b>135,000</b>	<b>1,626,406</b>	<b>1,491,406</b>
<b>Net Change in Fund Balance</b>	<b>(1,713,000)</b>	<b>(1,713,000)</b>	<b>282,908</b>	<b>1,995,908</b>
<b>FUND BALANCE, JULY 1, 2007</b>				
<b>FUND BALANCE, JUNE 30, 2010</b>	<b>\$ (1,713,000)</b>	<b>\$ (1,713,000)</b>	<b>\$ 282,908</b>	<b>\$ 1,995,908</b>

**Sutter Butte Flood Control Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual - Capital Projects Fund**  
**For the Three Fiscal Years Ended June 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 2,325,000	\$ 2,325,000	\$ 1,732,378	\$ (592,622)
Interest income and investment earnings			230,684	230,684
Total Revenues	<u>2,325,000</u>	<u>2,325,000</u>	<u>1,963,062</u>	<u>(361,938)</u>
<b>EXPENDITURES</b>				
Capital:				
USACE Feasibility Study	1,030,000	1,030,000	458,638	571,362
Star Bend Set Back Levee Contribution to LD1	4,380,000	4,380,000	1,620,000	2,760,000
Assessment District Formation	795,000	795,000	602,460	192,540
Early Implementation Project Preliminary Design and Application	<u>553,409</u>	<u>553,409</u>	<u>385,434</u>	<u>167,975</u>
Total Expenditures	<u>6,758,409</u>	<u>6,758,409</u>	<u>3,066,532</u>	<u>3,691,877</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,433,409)</u>	<u>(4,433,409)</u>	<u>(1,103,470)</u>	<u>3,329,939</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of long-term debt			4,115,000	4,115,000
Transfers in	265,000	265,000	265,000	
Transfers out	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	
Total Other Financing Sources (Uses)	<u>(135,000)</u>	<u>(135,000)</u>	<u>3,980,000</u>	<u>4,115,000</u>
Net Change in Fund Balance	<u>(4,568,409)</u>	<u>(4,568,409)</u>	<u>2,876,530</u>	<u>7,444,939</u>
<b>FUND BALANCE, JULY 1, 2007</b>				
FUND BALANCE, JUNE 30, 2010	<u>\$ (4,568,409)</u>	<u>\$ (4,568,409)</u>	<u>\$ 2,876,530</u>	<u>\$ 7,444,939</u>



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency, as of and for the three fiscal years ended June 30, 2010 which collectively comprise the Sutter Butte Flood Control Agency's basic financial statements, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

We noted certain other matters that we reported to management of the Sutter Butte Flood Control Agency in a separate letter dated December 21, 2011.

## Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
December 21, 2011