

SUTTER BUTTE FLOOD CONTROL AGENCY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2011

SUTTER BUTTE FLOOD CONTROL AGENCY
FINANCIAL STATEMENTS

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency (Agency), as of and for the fiscal year ended June 30, 2011, 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, 2011, and the respective changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 59, *Financial Instruments Omnibus*.

In accordance with the *Government Auditing Standards*, we have also issued a report dated January 18, 2012, on our consideration of the Sutter Butte Flood Control Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Budgetary Comparison Schedule 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
January 18, 2012

**Sutter Butte Flood Control Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2011**

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, 2011. This document has been prepared as required by the Governmental Accounting Standards Board Statement No. 34 (GASB No. 34). We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes to those financial statements.

I. Financial Highlights

- This fiscal year, SBFCA commenced the collection of assessments associated with the Sutter Butte Flood Control Agency Assessment District (the "Assessment District") and started the final design and planning activities associated with SBFCA's Feather River West Levee Early Implementation Program Project (the "EIP Project").
- SBFCA's net assets increased by \$1,214,703 to (\$1,502,301) primarily due to the collection of the first year of Assessment District revenues.
- Total assets increased by \$2,105,471 mostly due to an increase in cash and investments from the receipt of assessment district revenues.
- Total liabilities increased by \$890,768 mostly due to an increase in accounts payable as of June 30, 2011. These payables are primarily associated with the cost of designing and planning the EIP Project.
- SBFCA's long term liabilities increased by \$124,423 which is associated with the interest due on SBFCA's outstanding member Agency loans due to Yuba City, Sutter County, and Levee District 1.

II. Overview of the Basic Financial Statements

This discussion and analysis are 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 required and other supplemental information in addition to the Basic Financial Statements themselves.

Government-Wide Financial Statements

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

The *Statement of Net Assets* provides information about the financial position of SBFCA as a whole, including all capital assets and liabilities on a full accrual basis. Over time, increases or decreases in SBFCA's net assets may serve as one useful indicator of the Agency's overall financial position. In the case of SBFCA, total liabilities exceeded assets (deficit) by (\$1,502,301) as of the close of the fiscal year. SBFCA's start-up member agency loans comprise the vast majority of the Agency's liabilities and, over time, these liabilities will be repaid.

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

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

Fund Financial Statements

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

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

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

SBFCA adopts an annual appropriated budget for both of its funds. Budgetary comparison schedules have been provided for the General Fund and the Capital Projects Fund to demonstrate compliance with the budgets and are included within the Required Supplementary Information and Other Supplemental Information.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information* and *Other Supplemental Information* with budgetary comparison to demonstrate compliance with approved budgets.

III. Government-Wide Financial Analysis

As noted earlier, SBFCA's liabilities exceed assets (a deficit position) by (\$1,502,301) at the end of fiscal year 2010-11. This amount is an increase from the three fiscal years ending June 30, 2010 of \$1,214,703. The key element to this increase includes the collection of SBFCA's first year of Assessment District Revenue which totaled \$6,377,136. This contributed to an increase in Assets (Cash and Investments) by virtue of revenues exceeding expenses for the fiscal year by \$1,214,703.

IV. Fund Financial Statements Analysis

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

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

At June 30, 2011, SBFCA's governmental funds reported combined fund balances of \$4,436,854 an increase of \$1,277,416 in comparison to June 30, 2010. Over 30% of this total amount, \$1,423,004, is unassigned fund balance and the remainder is dedicated for the capital projects and prepaid items.

The General Fund is the main operating fund of SBFCA. On June 30, 2011, the Fund Balance was \$1,423,104 and nearly this entire amount is unassigned fund balance (save \$100 of prepaid rent). Total expenditures for the fiscal year were \$334,000, only 23% of the ending fund balance. At the start of the fiscal year, in order to cover projected operational expenditures before the approval of the Assessment District, a transfer of \$700,000 from the Capital Fund took place to cover projected operational costs of the Agency. At that time, the funds transferred from the Capital Fund at the start of the fiscal year represented proceeds from member agency loans to cover SBFCA's start-up costs. As the Assessment District was approved in July, operational funding from the District was received toward the end of the fiscal year in February and May thereby generating the healthy fund balance.

The Capital Fund is the main project fund of SBFCA and supports SBFCA's capital programs. These programs include the US Army Corps of Engineers Feasibility Study, SBFCA's EIP Project and any remaining payments due to Levee District 1 for its Star Bend Project. The Fund Balance at June 30, 2011 was \$3,013,750. A useful measurement of the fund liquidity is a comparison between total expenditures and the ending fund balance. The total expenditures of the fund represent 161% of the ending fund balance indicating that liquidity is low. By far the largest effort for SBFCA is the EIP Project. EIP Project expenditures represented over 90% of the total expenditures from the Capital Fund. During the fiscal year the design and planning efforts of the EIP Project commenced and 30% design was completed. These efforts were funded on a pay as you go basis from fund balances and Assessment District Revenues. In the future, EIP Project expenditures will increase as geotechnical field investigations and final design efforts are underway, right of way planning and acquisition efforts intensify, and the project progresses rapidly toward construction. These projected expenditures will exceed SBFCA's pay as you go financial capability and will necessitate borrowing as contemplated within the Assessment District Engineer's Report. Management has already started the process of evaluating financing options and this will be reflected in future fiscal year budget amendments.

V. Budgetary Highlights

A budgetary to actual comparison for the General Fund is included in the Required Supplementary Information. Total operating expenditures were \$69,213 (17%) under budget mostly due to lower than expected professional services costs. In addition, total operating revenues were \$20,896 (3%) over budget due to unbudgeted interest income.

A budgetary to actual comparison for the Capital Fund is included in the Other Supplemental Information. Total Capital revenues were \$691,658 (11%) under budget primarily due to lower than expected Proposition 13 revenues related to the Feasibility Study and adjustments in first year Assessments. Total Capital expenditures were \$2,520,286 (34%) under budget primarily due to the deferral of contributions to LD 1 for their Star Bend Set Back Levee project and lower than expected EIP project design expenditures. As a result of these items combined, SBFCA's ending Capital Project fund balance was \$1,828,628 higher than originally budgeted.

VI. Capital Asset and Long-Term Obligations

Capital Assets – SBFCA has no capital assets.

Long-Term Obligations – As noted previously, SBFCA has three outstanding loans to three of its member agencies, Yuba City, Sutter County, and Levee District 1 totaling a combined principal amount of \$5,606,406. All three loans have the same structure and similar agreements. As described within the Notes to the Basic Financial Statements, Principal and Interest payments are due only to the extent SBFCA has sufficient funds available hence no formal repayment schedule was developed. Interest accrues at the Sutter County pooled treasury rate for that prior fiscal year and capitalizes as part of future interest calculations. The total accreted interest to date is \$394,459. The loans were originally made with the understanding that they would be forgiven in the event that the formation of the Assessment District was unsuccessful. As the Assessment District was formed successfully in July 2010, SBFCA Management is now planning for the repayment of these loans as part of future capital project financing efforts.

VII. Economic Factors and Next Year's Budget

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

SBFCA has implemented a three year budget planning platform and the initial budgets for fiscal years 2011/2012 and 2012/2013 have been developed assuming that SBFCA continues to fund the design of the EIP Project on an aggressive schedule to be able to commence construction by the Spring of 2013. The budgets also assume that a design funding agreement with the Department of Water Resources is in place and providing additional funding for the project. Furthermore, commencing with the budget for 2011/12, the budgets also incorporate funding for SBFCA's first employee, a Director of Engineering. This position was filled in September 2011. As the responsibility for the planning and implementation of SBFCA's capital projects fall to this position, it is expected that the budget and schedule for all capital expenditures will be refined later in fiscal year 2011-12 and result in budget amendments.

VIII. Requests for Information

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

Sutter Butte Flood Control Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and investments	\$ 5,186,652
Accounts receivable	223,259
Prepaid expenses	500
Total Assets	5,410,411
LIABILITIES	
Current liabilities:	
Accounts payable	911,847
Total Current liabilities	911,847
Noncurrent liabilities:	
Interest payable	394,459
Loans payable	5,606,406
Total Noncurrent liabilities	6,000,865
Total Liabilities	6,912,712
NET ASSETS	
Restricted for capital projects	3,075,460
Unrestricted	(4,577,761)
Total Net Assets (Deficit)	\$ (1,502,301)

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Flood protection	\$ 5,183,592	\$ -	\$ 750,000	\$ 1,274,901
Interest on long-term debt	124,423			(124,423)
Total governmental activities	\$ 5,308,015	\$ -	\$ 750,000	1,150,478

General revenues:	
Investment earnings	60,782
Other revenues	3,443
Total general revenues	<u>64,225</u>
Change in net assets	1,214,703
Net assets (deficit) beginning of fiscal year	<u>(2,717,004)</u>
Net assets (deficit) end of fiscal year	<u>\$ (1,502,301)</u>

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and investments	\$ 1,446,746	\$ 3,739,906	\$ 5,186,652
Accounts receivable		223,259	223,259
Prepaid items	100	400	500
Total Assets	<u>\$ 1,446,846</u>	<u>\$ 3,963,565</u>	<u>\$ 5,410,411</u>
LIABILITIES			
Accounts payable	\$ 23,742	\$ 888,105	\$ 911,847
Deferred revenue		61,710	61,710
Total Liabilities	<u>23,742</u>	<u>949,815</u>	<u>973,557</u>
FUND BALANCES			
Nonspendable: prepaid items	100		100
Restricted for capital projects		3,013,750	3,013,750
Unassigned	1,423,004		1,423,004
Total Fund Balances	<u>1,423,104</u>	<u>3,013,750</u>	<u>4,436,854</u>
Total Liabilities and Fund Balances	<u>\$ 1,446,846</u>	<u>\$ 3,963,565</u>	<u>\$ 5,410,411</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, 2011

FUND BALANCES - GOVERNMENTAL FUNDS \$ 4,436,854

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

ACCOUNTS RECEIVABLE

Under the modified accrual basis of accounting used in governmental funds, revenues are not recognized for transactions that do not represent available financial resources. In the statement of net assets and statement of activities, however, revenues and assets are reported regardless of when financial resources are available. This is the amount of the deferred revenue associated with accounts receivable as of June 30, 2011. 61,710

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. (394,459)

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 \$ (1,502,301)

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, 2011

	General Fund	Capital Projects Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 81,357	\$ 81,357
Assessment revenue	750,000	5,565,426	6,315,426
Interest income and investment earnings	20,896	39,886	60,782
Other revenues	3,300	143	3,443
Total Revenues	774,196	5,686,812	6,461,008
EXPENDITURES			
Current:			
Operational:			
Telephone	149		149
Postage and freight	59		59
Advertising	79		79
Forms and supplies	185		185
Printing and binding	208		208
Professional services	324,413		324,413
Dues and subscriptions	2,983		2,983
Rentals	1,200		1,200
Insurance	4,633		4,633
Other materials and supplies	91		91
Capital:			
USACE Feasibility Study		425,638	425,638
State EIP Funded		1,904,548	1,904,548
Local EIP Funded		2,482,446	2,482,446
Early Implementation Project Preliminary Design and Application		36,960	36,960
Total Expenditures	334,000	4,849,592	5,183,592
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	440,196	837,220	1,277,416
OTHER FINANCING SOURCES (USES):			
Transfers in	700,000		700,000
Transfers out		(700,000)	(700,000)
Total Other Financing Sources (Uses)	700,000	(700,000)	
NET CHANGE IN FUND BALANCES	1,140,196	137,220	1,277,416
FUND BALANCES, JULY 1, 2010	282,908	2,876,530	3,159,438
FUND BALANCES, JUNE 30, 2011	\$ 1,423,104	\$ 3,013,750	\$ 4,436,854

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, 2011

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	\$	1,277,416
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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 current fiscal year change:

Interest payable		(124,423)
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ACCOUNTS RECEIVABLE

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

		<u>61,710</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>1,214,703</u></u>
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See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

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, 2011.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

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, 2011

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, 2011, 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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances

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

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

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

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

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

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.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances, Continued

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

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

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

J. Use of Estimates

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

K. Interfund Transactions

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

L. New Accounting Pronouncements

The Agency implemented the requirements of Governmental Accounting Standards Board (GASB) Statements No. 54 and No. 59 during the fiscal year ended June 30, 2011.

GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions

This Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note II for definitions and how this Statement affected the fund balances.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. New Accounting Pronouncements, Continued

GASB Statement No. 59 – Financial Instruments Omnibus

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 59, "Financial Instruments Omnibus". This Statement is effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. 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	<u>\$ 5,186,652</u>
Total cash and investments	<u><u>\$ 5,186,652</u></u>

Cash and Investments held by the Agency at June 30, 2011 consisted of the following:

Pooled cash with City of Yuba City	<u>\$ 5,186,652</u>
Total cash and investments	<u><u>\$ 5,186,652</u></u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

2. CASH AND INVESTMENTS, Continued

B. Summary of Cash and Investments, Continued

Investments Authorized by the California Government Code

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

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

3. RISK MANAGEMENT

General Liability, Auto Liability, and Errors & Omissions Insurance

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

4. INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2011, were as follows:

	Transfers In	Transfers Out
		Capital Projects Fund
General Fund		\$ 700,000
Total		\$ 700,000

The 2010/11 fiscal year transfer consisted of a transfer from the Capital Projects Fund to the General Fund of \$700,000 to cover projected operational expenditures before the approval of the Assessment District.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

5. LONG-TERM DEBT

Loans Payable

Loans payable at June 30, 2011, consisted of the following:

To Yuba City, bears interest at a rate based on the Sutter County pooled treasury rate, which was 2.117% as of June 30, 2011. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$195,422.	\$ 2,778,203
To Sutter County, bears interest at a rate based on the Sutter County pooled treasury rate, which was 2.117% as of June 30, 2011. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$195,422.	2,778,203
To Levee District No. 1, bears interest at a rate based on the Sutter County pooled treasury rate, which was 2.117% as of June 30, 2011. Principal and interest are payable as the Agency has sufficient funds available. Balance does not include interest of \$3,615.	<u>50,000</u>
Total Loans Payable	<u>\$ 5,606,406</u>

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	July 1, 2010 Balance	Additions	Reductions	June 30, 2011 Balance	Due Within One Year
Governmental activities:					
Loans Payable	\$ 5,606,406	\$ -	\$ -	\$ 5,606,406	\$ -
Governmental activities Long-term liabilities	<u>\$ 5,606,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,606,406</u>	<u>\$ -</u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2011

6. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is not a defendant in any lawsuits as of June 30, 2011.

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, 2011 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, 2011, 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, 2011

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Assessment revenue	\$ -	\$ 750,000	\$ 750,000	\$ -
Interest income and investment earnings			20,896	20,896
Other revenues		3,300	3,300	
Total Revenues		753,300	774,196	20,896
EXPENDITURES				
Current				
Operational:				
Telephone	480	180	149	31
Postage and freight		100	59	41
Advertising	500	500	79	421
Forms and supplies	6,000	2,400	185	2,215
Printing and binding	5,000	500	208	292
Professional services	590,000	388,000	324,413	63,587
Travel and meetings		1,000		1,000
Dues and subscriptions	15,000	4,000	2,983	1,017
Rentals	20,000	1,300	1,200	100
Insurance	20,000	4,633	4,633	
Other materials and supplies	10,000	600	91	509
Total Expenditures	666,980	403,213	334,000	69,213
Excess of Revenues Over (Under) Expenditures	(666,980)	350,087	440,196	90,109
OTHER FINANCING SOURCES (USES)				
Transfers in	700,000	700,000	700,000	
Total Other Financing Sources (Uses)	700,000	700,000	700,000	
Net Change in Fund Balance	33,020	1,050,087	1,140,196	90,109
FUND BALANCE, JULY 1, 2010	282,908	282,908	282,908	
FUND BALANCE, JUNE 30, 2011	\$ 315,928	\$ 1,332,995	\$ 1,423,104	\$ 90,109

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,800,000	\$ 627,495	\$ 81,357	\$ (546,138)
Assessment revenue	1,500,000	5,750,975	5,565,426	(185,549)
Interest income and investment earnings			39,886	39,886
Other revenues			143	143
Total Revenues	3,300,000	6,378,470	5,686,812	(691,658)
EXPENDITURES				
Capital:				
USACE Feasibility Study	480,297	629,019	425,638	203,381
Star Bend Set Back Levee Contribution to LD1	1,880,000	1,000,000		1,000,000
State EIP Funded		2,489,052	1,904,548	584,504
Local EIP Funded		3,214,847	2,482,446	732,401
Assessment District Formation	192,540			
Early Implementation Project Preliminary Design and Application	2,647,270	36,960	36,960	
Total Expenditures	5,200,107	7,369,878	4,849,592	2,520,286
Excess of Revenues Over (Under) Expenditures	(1,900,107)	(991,408)	837,220	1,828,628
OTHER FINANCIING SOURCES (USES)				
Transfers out	(700,000)	(700,000)	(700,000)	
Total Other Financing Sources (Uses)	(700,000)	(700,000)	(700,000)	
Net Change in Fund Balance	(2,600,107)	(1,691,408)	137,220	1,828,628
FUND BALANCE, JULY 1, 2010	2,876,530	2,876,530	2,876,530	
FUND BALANCE, JUNE 30, 2011	\$ 276,423	\$ 1,185,122	\$ 3,013,750	\$ 1,828,628



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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 fiscal year ended June 30, 2011 which collectively comprise the Sutter Butte Flood Control Agency's basic financial statements, and have issued our report thereon dated January 18, 2012. 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
January 18, 2012