

SUTTER BUTTE FLOOD CONTROL AGENCY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2016

SUTTER BUTTE FLOOD CONTROL AGENCY
FINANCIAL STATEMENTS

JUNE 30, 2016

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet-Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	14
Notes to Basic Financial Statements	15
Required Supplementary Information	
Notes to Required Supplementary Information.....	28
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	29
Other Supplemental Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Capital Projects Fund	30



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency (Agency), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2016, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule of the General Fund on pages 3 through 8 and page 29 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Budgetary Comparison Schedule of the Capital Projects Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
January 9, 2017

**Sutter Butte Flood Control Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2016**

Management's Discussion and Analysis

This document provides a narrative overview and analysis of the financial activities of the SBFCA for the fiscal year ended June 30, 2016. This document has been prepared by SBFCA management as required by the Governmental Accounting Standards Board Statement No. 34 (GASB No. 34). We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes to those financial statements.

I. Financial Highlights

Major Milestones

- This fiscal year was SBFCA's sixth year of collecting assessments associated with the Sutter Butte Flood Control Agency Assessment District (the "Assessment District"). The Agency has received nearly 100% of the levied assessments as of the date of this financial report.
- As of the completion of the construction season ending in November 2016, SBFCA has completed nearly all of the work in Project Areas C, B & D of the Feather River West Levee Phase 1 Project (the "FRWLP1") and commenced construction on the remaining, relatively smaller contracts representing work at levee / bridge and utility crossings. The completed work to date represents the construction of 27 miles of slurry wall and 1.5 miles of berm construction as well as numerous minor structures and activities. With this effort, SBFCA has fully closed out its first construction contract for its Project Area C providing enhanced flood protection to the City of Yuba City.
- In October 2013, SBFCA executed a contract with the State of California, Department of Water Resources ("DWR") to provide grant funding from Proposition 1E for \$56.78 million for Project Area C work. In September 2014, DWR amended the Early Implementation Project (EIP) Agreement with SBFCA to provide additional funding of \$57.8 million for construction. In December 2014, SBFCA submitted a request for funding from the Urban Flood Risk Reduction Program funding to the State of California, Department of Water Resource (DWR). Two actions took place as a result of this request. First, DWR executed a third amendment in October 2015 providing an additional \$43.86 million of funding for the current approved scope of work under DWR's EIP funding program. Second, SBFCA executed a fourth amendment in September 2016 for an additional \$40.83 million funding the balance of the FRWLP1 as well as the Oroville Wildlife Area Flood Stage Reduction Project.
- In January 2016, the SBFCA Board of Directors adopted the SBFCA Strategic Plan which laid out the near and long term Goals and Objectives of the Agency. Building upon the adoption of the Strategic Plan, in June 2016 the SBFCA Board adopted an amended 2015/16 Budget and forward looking 3-Year budget covering the agency's activities through 2018-19. This three year budget lays the groundwork for the implementation of the Strategic plan and investment of available resources in the flood protection system protecting the basin. The 3-Year Budget also laid out four new capital projects / programs that SBFCA will attempt to secure and invest additional available resources in. These include DWR's Small Communities Grant Program, future DWR Flood System Repair Projects protecting the rural portions of the basin, and a Compliance and Accreditation Program that will advance efforts to certify and accredit completed levee improvements consistent with FEMA criteria and DWR's Urban Levee Design Criteria.
- Consistent with the adopted Strategic Plan, during the Fiscal Year ending June 30, 2016, SBFCA;
 - Developed and approved the supporting documentation needed for the land use agencies in the basin to adopt findings of Adequate Progress toward Urban Level of Flood Protection
 - Adopted a Supplemental EIR covering the Laurel Avenue Seepage Repair and Gridley Bridge Erosion Repair projects
 - Adopted an Initial Study/Mitigated Negative Declaration for the Oroville Wildlife Area Flood Stage Reduction Project
 - Completed the design and construction of the Gridley Bridge project

- Commenced the 2nd Phase of the Regional Flood Management Planning effort
- Executed an Agreement for \$7.225 million under DWR's Flood System Repair Project for the Laurel Avenue Seepage Repair Project, completed design and permitting, and awarded a construction contract for the same.
- SBFCA's Sutter Basin Project received Federal Funding as part of the USACE's 2015 work allowing SBFCA to execute a Preconstruction Engineering and Design phase agreement; this agreement affords SBFCA the opportunity to advance a significant reach of the FRWLP not currently covered through design and construction agreements with State of California.
- In total, during the fiscal year, SBFCA received nearly \$22.5 million of funding through its Funding Agreements with the State.
- During the fiscal year, SBFCA spent more than \$72 million to advance the FRWLP.

This fiscal year saw a decrease in financial activities for SBFCA, expenditures decreased by more than 34% and revenues decreased by more than 60% over last fiscal year. However, fiscal year 2015-16 has been another very active year for the Agency as evidenced by the number of different projects and flood risk reduction efforts advanced by the Agency.

Financial Activities

- Primarily as a result of the grant awards, collection of assessment revenues and the investment of those resources in the FRWLP, SBFCA's net position increased by \$22,945,360 in fiscal year 2015-16. Until the completion and full transfer of a project to the ultimate owner and maintainer, SBFCA is capitalizing its investments in the FRWLP as Construction in progress.
- Total assets increased by \$68,310,983 mostly due to an increase in Construction in progress.
- Total liabilities increased by \$9,060,821 primarily due to an increase in accounts payable at the end of the current year. SBFCA's fiscal year end comes during the height of the construction season and significant construction related progress payments were due as of June 30, 2016.

II. Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to SBFCA's Basic Financial Statements. SBFCA's Basic Financial Statements are composed of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains required supplementary information 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 Position* and the *Statement of Activities*.

The Statement of Net Position provides information about the financial position of SBFCA as a whole, including all capital assets and liabilities on a full accrual basis of accounting. Over time, increases or decreases in SBFCA's net position may serve as one useful indicator of the Agency's overall financial position. In the case of SBFCA, total assets exceeded liabilities by \$152,473,864 as of the close of the fiscal year. When comparing SBFCA's Net Position to the fiscal year ending June 30, 2015, there has been an increase of \$22,945,360 which is indicative of the amount of construction activity that has taken place over the year primarily funded by California Department of Water Resources grant programs.

The Statement of Activities provides information about how SBFCA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, the revenues and all of the expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods. The Government-Wide Financial Statements are prepared on the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

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

Fund Financial Statements

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

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

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

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

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 comparisons to demonstrate compliance with approved budgets.

III. Government-Wide Financial Analysis

As noted earlier, SBFCA's assets exceed liabilities by \$152,473,864 at the end of fiscal year 2015-16. This amount is a significant increase from the fiscal year ended June 30, 2015 balance of \$129,528,504. The key element to this increase is related to SBFCA's Capital Asset Policy and the significant receipt of funds from California Department of Water Resources through funding agreements and the associated investments made by SBFCA in the FRWLP over the past fiscal year.

In fiscal year 2011-12, SBFCA implemented a policy to capitalize the work completed for its FRWLP in accordance with its Capital Asset policy implemented during that fiscal year. The vast majority of SBFCA's Net Position are invested in this capital project as Construction in progress. Construction in progress increased by \$68,310,983 during the fiscal year. The significant increase in Net Position from fiscal year 2015-16 represents the continued accomplishment of SBFCA's immediate primary goal, which is the construction of the FRWLP. SBFCA's Net Position will continue to increase in the next fiscal year as construction activities have continued into fiscal year 2016-17 and grant revenues from DWR are invested in the FRWLP and other capital projects. However, SBFCA expects that upon the completion of various phases of the FRWLP, which are expected over the next 3 - 5 years, SBFCA will transfer maintenance responsibility of the completed phases to the local maintaining agencies and improved facilities will be transferred to the State of California (specifically the Sacramento San Joaquin Drainage District), thereby reducing SBFCA's Net Position. While there are certain regulatory and compliance hurdles to overcome, the full acceptance and transfer process can begin as early as fiscal year 2016-17.

IV. Fund Financial Statements Analysis

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

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

On June 30, 2016, SBFCA's governmental funds reported combined fund balances of \$12,411,020, an decrease of \$45,288,440 in comparison to the fund balance as of June 30, 2015. This decrease is primarily due to the fact that in June 2015, SBFCA had completed the sale of a second series of assessment revenue bonds that yielded an additional \$33,707,379 of proceeds for project related expenses. These proceeds were invested in the FRWLP during the fiscal year. During the fiscal year SBFCA drew down \$27,356,864 of project fund proceeds from the 2015 assessment revenue bond sale. \$3,304,788 of the combined fund balance amount is unassigned fund balance and the remainder is restricted for capital projects or prepaid items.

The General Fund is the main operating fund of SBFCA. On June 30, 2016, the Fund Balance was \$3,305,567 and almost all of this was unassigned fund balance. A useful measurement of the fund liquidity is a comparison between total expenditures and the ending fund balance. Expenditures for the fiscal year were \$750,156, approximately 22.7% of the ending fund balance. The Unassigned fund balance was 440.6% of current fiscal year expenditures.

The Capital Projects Fund is the main project fund of SBFCA and supports SBFCA's capital programs. These programs include the US Army Corps of Engineers Sutter Basin Feasibility Study, SBFCA's FRWLP, the Feather River Regional Planning Effort, the Emergency Response Planning effort, the design and permitting effort of the Oroville Wildlife Area Flood Stage Reduction project, the design and permitting effort of the Gridley Bridge Erosion Repair project and the final design permitting and construction of the Laurel Avenue Seepage Repair project. As part of the implementation of SBFCA's Strategic Plan, three new Capital Programs were added that include the Small Community Grant program, additional Flood System Repair Projects and a Compliance & Accreditation Program. Specific Projects within these programs will be advanced to the extent funding is secured and available.

The Capital Project's Fund Balance on June 30, 2016 was \$9,105,453. The total expenditures of the fund were \$73,795,345. These represent 810% of the ending fund balance, indicating that liquidity is very low. This is to be expected, as by far the largest effort for SBFCA continues to be the FRWLP. FRWLP expenditures represented over 97.6% of the total expenditures in the Capital Fund. With SBFCA's 4th Amendment to its funding agreement with the State for the FRWLP1 project, the funding agreement now provides funding for more than 76% of this effort. The Northern most reaches of the FRWLP in Project Area D (Butte County) are now funded at 81% and 100% depending upon the exact location. The State advances a portion of its share of projected expenditures on a quarterly basis. This provides the cash flow for the project, while at the same time protecting the State's interests in the project and not

advancing too much funding without SBFCA substantiating expenditures on a monthly basis. In order to meet the cash flow requirements for the local share of the FRWLP during the fiscal year, SBFCA relied on the proceeds of its two series of Assessment Revenue Bonds.

V. Budgetary Highlights

A budgetary to actual comparison for the General Fund is included in the Required Supplementary Information. Total Expenditures were \$151,548 (25%) over the final budget, mostly due to an increase in costs related to professional services and salaries and benefits expended against the General Fund. SBFCA is able to allocate some of its costs for Salaries and benefits to its Capital Projects Fund and receive reimbursement for these costs. Throughout the fiscal year, this allocation was not as great as originally budgeted resulting in greater General Fund expenditures. Actual revenues were in excess of the final budgeted revenues by \$28,515 solely as a result of unbudgeted interest income.

A budgetary to actual comparison for the Capital Fund is also included as Other Supplemental Information. Total Capital revenues were \$1,752,969 (7%) under the final budget mostly due to delays in the amount of construction funding received from DWR during the fiscal year. During the Fiscal Year, SBFCA worked with the DWR to process an amendment to its funding agreement to authorize additional scope of work. Due to delays in the approval of the agreement, funding from the State was not able to be advanced for this work. As a result, less funding from the State was received than originally forecasted. Total expenditures were \$115,070 (less than 1%) lower than the final budget.

VI. Capital Asset and Long-Term Obligations

Capital Assets – During fiscal year 2011-12, SBFCA implemented its capital asset policy. This fiscal year SBFCA continued its significant investment in the Feather River West Levee Project and increased its capital assets by \$68,310,983. As previously discussed, these capital assets represent Construction in progress. Through June 30, 2016, SBFCA was in the middle of a construction season.

Long-Term Obligations – In May 2013, SBFCA issued its first series of Assessment Revenue Bonds in the amount of \$41,035,000 for capital improvements. As of June 30, 2016 the outstanding balance of the bonds payable was \$40,840,000. During the fiscal year SBFCA made interest payments on the outstanding debt amount totaling \$1,736,938.

In June 2015, SBFCA issued its second series of Assessment Revenue Bonds in the amount of \$47,070,000 for capital improvements. As of June 30, 2016 the outstanding balance of the bonds payable remained \$47,070,000. During the fiscal year SBFCA made interest payments on the outstanding debt amount totaling \$1,623,805.

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, and assessment revenue is somewhat insulated from local economic factors that might impact home values. To the extent local economic factors impact a property owner's ability to pay the assessment, SBFCA's revenues and future ability to capitalize this revenue could be impacted. The property assessment non-collection rate for the fifth year of collection is extremely low, approximately 1% for the assessment collected on the secured property tax rolls of Sutter and Butte Counties.

As previously noted, as part of SBFCA's implementation of its Strategic Plan, SBFCA has adopted a 3-Year budget that continues the primary goal of completing the FRWLP project while at the same time prioritizing the remaining work needed to provide flood protection to the basin with remaining limited resources available. The budget for fiscal year 2016-17 was developed assuming that SBFCA completes the remaining FRWLP construction, advances the Oroville Wildlife Area Project and works to advance the closeout efforts of the DWR Urban Flood Risk Reduction Grant. These activities are expected to extend into 2017-18. In addition, SBFCA will work to advance additional

flood risk reduction projects in the rural portions of the basin. This work will include the Laurel Avenue Seepage Repair project which will commence construction in 2016-17 as well as advancing efforts to secure additional funding for the remainder of the Federally Authorized Sutter Basin project through either State DWR programs or the USACE. SBFCA management expects to continue to work with its Board of Directors to implement the Strategic Plan and advance additional work related to the Feather River West Levee and the rural portion of the basin.

VIII. Requests for Information

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

Sutter Butte Flood Control Agency
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 10,381,243
Cash and investments with fiscal agent	7,830,529
Accounts receivable, net	9,629,801
Interest receivable	278
Prepaid expenses	15,586
Total Current assets	<u>27,857,437</u>
Noncurrent assets:	
Capital assets not being depreciated:	
Construction in progress	232,930,986
Total Noncurrent assets	<u>232,930,986</u>
Total Assets	<u>260,788,423</u>
LIABILITIES	
Current liabilities:	
Accounts payable	15,406,831
Accrued liabilities	3,880
Interest payable	945,878
Bonds payable, including original issue premium	446,128
Total Current liabilities	<u>16,802,717</u>
Noncurrent liabilities:	
Compensated absences	24,141
Bonds payable, including original issue premium	91,487,701
Total Noncurrent liabilities	<u>91,511,842</u>
Total Liabilities	<u>108,314,559</u>
NET POSITION	
Net investment in capital assets	148,827,686
Restricted for capital projects	1,260,117
Unrestricted	2,386,061
Total Net Position	<u>\$ 152,473,864</u>

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Flood protection	\$ 2,683,728	\$ -	\$ 750,000	\$ 28,368,256	\$ 26,434,528
Interest on long-term debt	3,632,028				(3,632,028)
Total governmental activities	<u>\$ 6,315,756</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 28,368,256</u>	<u>22,802,500</u>
General revenues:					
					142,860
					<u>142,860</u>
					22,945,360
					<u>129,528,504</u>
					<u>\$ 152,473,864</u>

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and investments	\$ 3,542,114	\$ 6,839,129	\$ 10,381,243
Cash and investments with fiscal agent		7,830,529	7,830,529
Accounts receivable		9,788,527	9,788,527
Interest receivable		278	278
Prepaid items	779	14,807	15,586
	<u>779</u>	<u>14,807</u>	<u>15,586</u>
Total Assets	<u>\$ 3,542,893</u>	<u>\$ 24,473,270</u>	<u>\$ 28,016,163</u>
LIABILITIES			
Accounts payable	\$ 233,446	\$ 15,173,385	\$ 15,406,831
Accrued liabilities	3,880		3,880
	<u>3,880</u>		<u>3,880</u>
Total Liabilities	<u>237,326</u>	<u>15,173,385</u>	<u>15,410,711</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue-assessments		194,432	194,432
		<u>194,432</u>	<u>194,432</u>
Total liabilities and deferred inflows of resources	<u>237,326</u>	<u>15,367,817</u>	<u>15,605,143</u>
FUND BALANCES			
Nonspendable: prepaid items	779	14,807	15,586
Restricted for capital projects		9,090,646	9,090,646
Unassigned	3,304,788		3,304,788
	<u>3,304,788</u>		<u>3,304,788</u>
Total Fund Balances	<u>3,305,567</u>	<u>9,105,453</u>	<u>12,411,020</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,542,893</u>	<u>\$ 24,473,270</u>	<u>\$ 28,016,163</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 Position
June 30, 2016

FUND BALANCES - GOVERNMENTAL FUNDS \$ 12,411,020

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

CAPITAL ASSETS

In the governmental funds balance sheet, only current assets are reported.
 In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. 232,930,986

ACCOUNTS RECEIVABLE

Under the modified accrual basis of accounting used in governmental funds, revenues are not recognized for transactions that do not represent available financial resources. In the statement of net position and statement of activities, however, revenues and assets are reported regardless of when financial resources are available. This is the amount of the unearned revenue associated with accounts receivable as of June 30, 2016. 194,432

An allowance for uncollectible accounts receivable has been set up in the amount of \$158,726 for certain accounts receivable. (158,726)

INTEREST PAYABLE

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid.
 In government-wide statement of net position, it is recognized in the period that it is incurred. (945,878)

LONG-TERM DEBT

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

Compensated absences	(24,141)
Original issue premium	(4,023,829)
Bonds payable	(87,910,000)
	(91,957,970)

TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES \$ 152,473,864

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, 2016

	General Fund	Capital Projects Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 22,498,849	\$ 22,498,849
Assessment revenue	750,000	5,865,352	6,615,352
Investment earnings	28,515	114,345	142,860
Total Revenues	778,515	28,478,546	29,257,061
EXPENDITURES			
Current:			
Operational:			
Telephone	32		32
Postage and freight	574		574
Forms and supplies	105,680		105,680
Printing and binding	368		368
Professional services	449,941		449,941
Salaries and benefits	174,123		174,123
Travel and meetings	17,413		17,413
Dues and subscriptions	1,308		1,308
Rentals	180		180
Insurance	537		537
Capital:			
USACE Feasibility Study		28,454	28,454
State EIP Funded		1,159,787	1,159,787
Local EIP Funded		367,346	367,346
Regional Flood Management Planning - State Funded		190,697	190,697
Emergency Response Plan		7,447	7,447
Oroville Wildlife Area Planning		81,382	81,382
Laurel Avenue		75,706	75,706
Early Implementaton Project Design and Application		5,051	5,051
Gridley Bridge Project		10,290	10,290
Stakeholder Management		2,460	2,460
Capital outlay		68,310,983	68,310,983
Debt Service:			
Principal		195,000	195,000
Interest		3,360,742	3,360,742
Total Expenditures	750,156	73,795,345	74,545,501
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	28,359	(45,316,799)	(45,288,440)
Net Change in Fund Balances	28,359	(45,316,799)	(45,288,440)
FUND BALANCES, JULY 1, 2015	3,277,208	54,422,252	57,699,460
FUND BALANCES, JUNE 30, 2016	\$ 3,305,567	\$ 9,105,453	\$ 12,411,020

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, 2016

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

NET CHANGE IN FUND BALANCES \$ (45,288,440)

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

CAPITAL ASSETS

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

Capital outlay expenditures are, therefore, added back to fund balances 68,310,983

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 (412,414)

Compensated absences (4,952)

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

Amortization of original issue premium 141,128

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

Repayment of debt principal 195,000

ACCOUNTS RECEIVABLE

During the fiscal year, it was determined that certain accounts receivable may become uncollectible, therefore, an allowance of \$158,726 was set up on the statement of net position. This is the amount of the change in the allowance from the prior fiscal year.

(45,087)

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 unearned revenue exceeded prior fiscal year.

49,142

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 22,945,360

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Basis of Presentation and Accounting and Measurement Focus

The accounts of the Agency are organized and operated on the basis of funds, each of which is defined as a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenue, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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

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

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

1. Total assets, liabilities, revenues or expenditures/expenses of that individual 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, 2016.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

The following are descriptions of the major governmental funds:

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

All governmental funds are accounted for on a spending or “*current financial sources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end, except for grant revenues which are 9 months) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

C. Use of Restricted/Unrestricted Net Position

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

D. Cash and Investments

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

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Investment Valuation

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

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

F. Capital Assets

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

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

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

G. Compensated Absences

As of June 30, 2016, there is one employee of the Agency and \$24,141 has been accrued as a long-term debt. This debt represents the balance of the employee's vacation leave as of June 30, 2016.

The Agency also leases an employee from the City of Yuba City. The leased employee's compensatory time has not been accrued as of June 30, 2016.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Position and Fund Equity

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

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

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

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position” as defined above.

I. Fund Balances

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

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

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

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

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

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances, Continued

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

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

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

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

J. Use of Estimates

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

K. Interfund Transactions

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

L. Future Accounting Pronouncements

GASB Statements listed below will be implemented in the future financial statements:

Statement No. 74	"Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans"	The provision of this statement is effective for fiscal years beginning after June 15, 2016.
Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provision of this statement is effective for fiscal years beginning after June 15, 2017.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Future Accounting Pronouncements (Continued)

GASB Statements listed below will be implemented in the future financial statements: (Continued)

Statement No. 77	"Tax Abatement Disclosures"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 78	"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 79	"Certain External Investment Pools and Pool Participants"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 80	"Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14"	The provision of this statement is effective for fiscal years beginning after December 15, 2015.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provision of this statement is effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provision of this statement is effective for fiscal years beginning after December 15, 2017.

M. Deferred Inflows of Resources

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

2. CASH AND INVESTMENTS

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

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

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

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

2. CASH AND INVESTMENTS, Continued

Summary of Cash and Investments

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

Cash and investments, Statement of Net Position	\$ 10,381,243
Cash and investments with fiscal agent, Statement of Net Position	<u>7,830,529</u>
Total cash and investments	<u>\$ 18,211,772</u>

Cash and Investments held by the Agency at June 30, 2016 consisted of the following:

Deposits with financial institutions	\$ 152,236
Deposits with City of Yuba City	10,229,007
Investments	<u>7,830,529</u>
Total cash and investments	<u>\$ 18,211,772</u>

The Agency categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize the three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency had investments in the City's Investment Pool, however, this external pool is not measured under Level 1, 2, or 3.

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

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Money Market Funds	N/A	None	None
State Investment Fund (LAIF)	N/A	None	None

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
City Cash Pool	\$ 10,229,007	\$10,229,007	\$ -	\$ -	\$ -	\$ -	\$ -
Held by bond trustees:							
Money Market Funds	7,824,553	7,824,553					
State Investment Fund (LAIF)	5,976	5,976					
	<u>\$ 18,059,536</u>	<u>\$18,059,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Fiscal Year End			
				AAA	AA	A	Not Rated
City Cash Pool	\$ 10,229,007	N/A	\$ -	\$ -	\$ -	\$ -	\$ 10,229,007
Held by bond trustees:							
Money Market Funds	7,824,553	N/A		7,824,553			
State Investment Fund (LAIF)	5,976	N/A					5,976
Total	<u>\$ 18,059,536</u>		<u>\$ -</u>	<u>\$7,824,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,234,983</u>

Concentration of Credit Risk

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

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

2. CASH AND INVESTMENTS, Continued

Custodial Credit Risk

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

The District had no deposits with financial institutions in excess of federal depository insurance limits as of June 30, 2016.

3. RISK MANAGEMENT

General Liability & Crime Insurance

Coverage is maintained with the Special District Risk Management Authority with coverage limits of \$10,000,000 per occurrence.

Workers' Compensation Insurance

Coverage is maintained with Special District Risk Management Authority.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets, not depreciated				
Construction in progress	\$ 164,620,003	\$ 68,310,983	\$ -	\$ 232,930,986
Total capital assets, not depreciated	164,620,003	68,310,983		232,930,986
Capital assets, net	\$ 164,620,003	\$ 68,310,983	\$ -	\$ 232,930,986

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

5. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. The deferred inflow of resources balance at June 30, 2016, related to the assessment revenue accounts receivable not received within 60 days, was \$194,432.

6. LONG-TERM DEBT

Bonds Payable

Assessment Revenue Bonds Series 2013

On May 16, 2013, the Agency issued \$41,035,000 of Assessment Revenue Bonds bearing interest between 3.0% and 5.0% and payable semi-annually on October 1 and April 1, maturing on October 1, 2043. These bonds were used to finance the construction of certain public capital improvements related to levee improvements and flood control, to provide funds for a reserve fund for the bonds, to provide capitalized interest through October 1, 2013, and to pay costs of issuance of the bonds. The outstanding principal balance of the 2013 Assessment Revenue Bonds at June 30, 2016 was \$40,840,000.

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 305,000	\$ 1,729,438	\$ 2,034,438
2018	320,000	1,718,462	2,038,462
2019	330,000	1,705,462	2,035,462
2020	605,000	1,686,763	2,291,763
2021	630,000	1,662,063	2,292,063
2022-2026	3,590,000	7,845,039	11,435,039
2027-2031	6,845,000	6,612,687	13,457,687
2032-2036	9,230,000	4,736,331	13,966,331
2037-2041	11,165,000	2,714,700	13,879,700
2042-2044	7,820,000	477,400	8,297,400
	<u>\$40,840,000</u>	<u>\$ 30,888,345</u>	<u>\$ 71,728,345</u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

6. LONG-TERM DEBT, Continued

Assessment Revenue Bonds Series 2015

On May 28, 2015, the Agency issued \$47,070,000 of Assessment Revenue Bonds bearing interest between 3.375% and 5.000% and payable semi-annually on October 1 and April 1, maturing on October 1, 2045. These bonds were used to refund the Rabobank loan, finance the construction of certain public capital improvements related to levee improvements and flood control, to provide funds for a reserve fund for the bonds in the form of a debt service reserve surety, to pay capitalized interest on the bonds through October 1, 2015, and to pay costs of issuance of the bonds. The bonds are secured on parity with the 2013 Bonds. The outstanding principal balance of the 2015 Assessment Revenue Bonds at June 30, 2016 was \$47,070,000.

The scheduled annual minimum debt service requirements at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ -	\$ 2,065,619	\$ 2,065,619
2018		2,065,619	2,065,619
2019	1,395,000	2,037,719	3,432,719
2020	1,190,000	1,986,019	3,176,019
2021	1,235,000	1,931,344	3,166,344
2022-2026	7,175,000	8,639,970	15,814,970
2027-2031	6,865,000	6,872,399	13,737,399
2032-2036	7,705,000	5,517,166	13,222,166
2037-2041	9,545,000	3,632,625	13,177,625
2042-2046	11,960,000	1,233,600	13,193,600
	<u>\$47,070,000</u>	<u>\$35,982,080</u>	<u>\$ 83,052,080</u>

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

	July 1, 2015 Balance	Additions	Reductions	June 30, 2016 Balance	Due Within One Year
Governmental activities:					
Bonds Payable	\$ 88,105,000	\$ -	\$ (195,000)	\$ 87,910,000	\$ 305,000
Original Issue Premium	4,164,957		(141,128)	4,023,829	141,128
Compensated Absences	19,189	17,023	(12,071)	24,141	
Governmental activities					
Long-term liabilities	<u>\$ 92,289,146</u>	<u>\$ 17,023</u>	<u>\$ (348,199)</u>	<u>\$ 91,957,970</u>	<u>\$ 446,128</u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

7. COMMITMENTS AND CONTINGENCIES

A. *Lawsuits*

The Agency is not a defendant in any lawsuits as of June 30, 2016.

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, 2016 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, 2016, in the opinion of Agency management and legal counsel, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency.

C. *Construction Commitments*

In May 2013, the Agency entered into a construction contract with Nordic/Magnus Pacific Joint Venture for \$51,606,600. As of February 25, 2016, due to additional change orders and field instructions, the contract amount has increased \$6,237,323 to \$57,843,923. In February 2016, a final payment was made on all work completed under the contract. In December 2017, the Agency authorized the release of all retention held within the third party retention escrow held for the benefit of the Contractor.

In March 2014, the Agency entered into a second construction contract with Nordic/Magnus Pacific Joint Venture for \$98,897,740. As of June 30, 2016, due to additional change orders and field instructions, the contract amount has decreased \$1,335,638.36 to \$97,562,101. As of June 30, 2016, approximately \$13,307,415.59 of this contract was still outstanding.

In June 2016, the Agency entered into a third contract with Nordic/Magnus Pacific Joint Venture for \$5,968,943.00. As of June 30, 2016, a Notice to Proceed had not yet been issued and the full amount of the contract remained outstanding.

8. OPERATING LEASE

The Agency now co-locates with its Construction Manager, Parsons Brinkerhoff, at 1441 Garden Highway, Yuba City, CA. As of June 30, 2016, the Agency has no operating lease agreements.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2016

9. EMPLOYEE RETIREMENT PLANS

The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all eligible employees, as defined by the Board of Directors. As of June 30, 2016, the Executive Director is the only eligible employee. The Agency does not match the employees' contribution. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, specific in-service distributions, or unforeseeable emergency.

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

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

Sutter Butte Flood Control Agency
Note to Required Supplementary Information
June 30, 2016

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.