Richardson & Company, LLP

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Directors and Management
American River Flood Control District
Sacramento, California

In planning and performing our audit of the financial statements of the American River Flood Control District (the District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of the following matters that have been included in this letter for your consideration:

Retiree Health Benefits

The District provides health benefits to retirees meeting certain eligibility requirements. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", the District has an actuarial valuation performed every three years to determine the liability and the annual required contribution (ARC) associated with the benefits to be provided to retirees and current employees. Currently, the District pays the health benefits for retirees on a pay as you go basis, which is less than the ARC and causes the liability to increase over time.

A consequence of not fully funding the ARC is the actuary is required to determine the liability by discounting the estimated benefits to be provided using a short term investment rate, which was 3.5% in the valuation performed as of September 1, 2013. Since the District has committed fund balance and previously held cash in a separate bank account for retiree benefits, the District may want to consider fully funding the ARC in the future and funding all or a portion of the current unfunded liability by depositing amounts into an irrevocable trust, such as the California Employers' Retiree Benefit Trust

(CERBT) administered by CalPERS. A commitment to fund the liability would support the use of a discount rate based on the long term investment yield expected to be earned by the trust, which would be around 7.5%. The use of a higher discount rate could result in a significant decrease in the liability and ARC in the future.

New Pronouncements: In June 2012, the GASB approved Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. Historically, GASB's pension standards viewed the obligation to provide benefits as belonging to the plan, rather than to the employer. As a result, employers disclosed the amount of unfunded pension liability in notes to their financial statements instead of recognizing a liability on the face of the statement of net position. As the District participates in a multi-employer cost-sharing plan, the District will be required to report a liability equivalent to their proportionate share of the net pension liability of the plan as well as the related pension expense and any deferred inflows or deferred outflow of resources. Historically, the District has only included their required contributions as an expense. Based on the June 30, 2013 actuarial evaluation, the District's share of the unfunded pension liability is $598,806 as of June 30, 2013, which is the latest available actuarial study. The provisions of the Statement are effective beginning with the June 30, 2015 financial statements, which will result in a decrease in the District's net position available for future use.

* * * * *

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the examination. This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than the specified parties.

Richardson & Company, LLP

April 10, 2015

AMERICAN RIVER FLOOD CONTROL DISTRICT

Audited Financial Statements
and Other Reports

June 30, 2014

AMERICAN RIVER FLOOD CONTROL DISTRICT

Audited Financial Statements
and Other Reports

June 30, 2014

Audited Financial Statements

Government-wide Financial Statements:

Fund Financial Statements:

Required and Other Supplementary Information:

Other Reports

Richardson & Company, LLP

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
American River Flood Control District
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the American River Flood Control District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's 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, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 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 opinion.

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 District as of June 30, 2014 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 to 10 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures – budgeted and actual – is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule 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 schedule of expenditures 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 April 10, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and 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 District's internal control over financial reporting and compliance.

Richardson & Company, LLP

April 10, 2015

As management of the American River Flood Control District (District), we are providing readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, footnotes, and supplementary information.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2013/2014

- At the end of the current year, total net position (total assets less total liabilities) of the District were a positive $17.1 million.
- During the year, the District's net position increased by $211,000. The increase was a result of the District's governmental activities (flood protection). The District has no business-type activities to report.
- At the end of the current year, the District's General Fund reported a total fund balance of $9.0 million. The amount of the unassigned fund balance was $3,041,288, and the remainder was committed by the Board or in nonspendable form.
- The District's capital asset balance before depreciation was $11.8 million at the end of the year.
- The District has no long term debt.
- The District has recognized a liability in the amount of $1.8 million for post-employment benefits. The liability increased approximately $231,000 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, Management's Discussion and Analysis (this section), the Basic Financial Statements and Required Supplementary information (RSI). The Basic Financial Statements include the government-wide financial statements and fund financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities, with the difference representing net position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.

The government-wide financial statements of the District report on one category, Governmental activities, as the District has no business-type activities.

Governmental Activities – All of the District's basic services, which include the maintenance and operation of a flood control system, are considered to be governmental activities and are included here. Assessment revenue, maintenance agreements, and investment earnings finance the District's flood protection activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's significant funds. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to keep track of specific sources of funding and spending for particular purposes.

The District has one kind of fund:

General Fund – All of the District's basic services are included in the General Fund, which focuses on how resources flow in and out. The balances remaining at year-end are available for spending. The governmental fund statement provides a detailed short-term view to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we described the relationship between governmental activities and governmental funds through the reconciliations on pages 14 and 16 and in the notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 17 of this report.

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the Basic Financial Statements and accompanying notes, this report presents certain required supplementary information (RSI) concerning the District's budget and actual revenue and expenditures on a budgetary basis. The RSI can be found on page 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. The District's net position was $17.1 million at the close of the most recent fiscal year. Of this amount $9.9 million is invested in capital assets. The District uses these capital assets to provide flood protection services. Consequently, these assets are not available for future spending. All remaining net position is unrestricted. (See Table 1)

Table 1
Statement of Net Position
June 30, 2014 and 2013
(in thousands)

	Governmental Activities	
	2014	2013
Current and other assets	$ 9,146	$ 9,535
Capital assets	9,902	9,054
Total assets	19,048	18,589
Current liabilities	87	71
Long term Liability		
Post-employment benefits	1,840	1,608
Total liabilities	1,927	1,679
Net position:		
Net investment in capital assets	9,902	9,054
Unrestricted net position	7,219	7,856
Total net position	$ 17,121	$ 16,910

Capital Assets, Net of Related Debt

As part of the implementation of GASB Statement No. 34, the District chose to not retroactively recognize infrastructure assets. GASB Statement No. 34 requires prospective reporting of infrastructure and allows for retroactive application of assets not previously required to be reported. The District opted to not record infrastructure assets (predominantly levee improvements) due to the difficulty in obtaining accurate cost for the levees, many of which were constructed over 50 years ago.

During the fiscal year ended June 30, 2014, there were no major additions to capital assets from levee improvements; however, the District purchased a building during the year at a cost of approximately $950,000. The building will be used for the District's new headquarter, and approximately $688,855 in improvements are expected to be made to the building during the next fiscal year.

There is no debt associated with any capital assets.

Restricted Net Position

The District has no restricted net position as of June 30, 2014.

Unrestricted Net Position

The District's unrestricted net position at June 30, 2014, totaled approximately $7.2 million. This net position included $5.9 million which have been committed by the Board for flood emergency, emergency repairs, future retiree health benefits, and future capital improvements.

Post Employment Benefits

The District had a third actuarial study performed during fiscal year 2014 for its post-employment benefits indicating that their plan has an unfunded accrued liability balance of $3,584,662 at June 30, 2014. During 2014, the District paid $28,832 against this liability, and recognized an additional $260,000 in expense to bring the liability to its estimated carrying value at June 30, 2014 of $1,797,191. The next actuarial study is scheduled to be performed in 2017.

Governmental Activities

The following table indicates the changes in net position for the governmental activities.

Table 2
Statement of Activities
Years Ended June 30, 2014 and 2013
(In thousands)

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues -		
O & M reimbursement agreements	$ 229	$ 222
General revenues -		
Assessments	2,035	1,997
Interest income	77	87
Miscellaneous	9	4
Total revenues	2,350	2,310
Expenses:		
Flood protection	2,139	1,935
	211	375
Changes in net position		
Net position – beginning of year	16,910	16,535
Net position – end of year	$ 17,121	$ 16,910

The District's net position increased by $211,000 during the current fiscal year. Overall revenues increased from $2.31 million in 2013 to $2.35 million in 2014. Flood protection expense increased from $1.9 million last year to $2.1 million during 2014.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the fiscal year-end, the District's governmental funds reported a combined fund balance of $9.0 million, a decrease of $0.4 million from the previous year's fund balance. The current year-end fund balance consists of $5.9 million in committed funds for emergencies and capital improvements as follows:

The Board has designated $1.5 million for the Flood Emergency Reserve Fund to be used by the District to initiate a flood emergency response and $1.5 million has been designated for the Emergency Repair Reserve Fund. These funds will be used to initiate immediate repairs to facilities damaged during a flood event so that the District will be better prepared to provide protection should another flood event follow. The Board has also designated $1.4 million for future retiree health benefits in the Retiree Health Benefits Fund. To fund improvements on District levees, $1.5 million has been designated for the Capital Outlay Fund. During the 2013-2014 fiscal year, the District budgeted $65,000 for the addition of new equipment.

The remaining $3,041,288 is unassigned and available for spending for flood protection purposes. These funds are included in the District's Operation and Maintenance Fund which is used for the annual costs associated with operating and maintaining the District's facilities, including administrative costs.

Revenues in the District's governmental fund (General Fund, which consists of the Board's four designated funds), were $2.4 million. Assessment revenue of $2.0 million was the major source (87%) of revenue for the governmental fund. Interest income accounted for 3% of total revenue. Expenditures from the governmental fund were $2.7 million, which resulted in $390,877 in expenditures over revenues for District operations.

The net decrease in fund balance was primarily due to the District's purchase of its new building and field equipment totaling over $1.0 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Summary – Revenues/Financing Sources

Following is a summary of the current year Budget and actual results for the District's General Fund revenues and other financing sources. (See Table 3)

Table 3

Revenues and Other Funding Sources – General Fund
Year Ended June 30, 2014

	Budget Amount	Actual Amount	Variance From Final Budget
Assessments	$ 2,020,000	$ 2,049,399	$ 29,399
O & M reimbursement agreements	210,000	228,798	18,798
Interest income	70,000	76,947	6,947
Miscellaneous	-	7,136	7,136
	$ 2,300,000	$ 2,362,280	$ 62,280

Changes from Amounts Originally Budgeted

There were no changes made to the original budget.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the District's General Fund were $62,280 greater than budget. The variance was primarily due to higher assessment revenue and O&M reimbursements, than originally planned. Included in miscellaneous income is $7,000 in rental income from a tenant that was leasing space from the previous owner of the building the District purchased. The tenant continued leasing space from the District through July 2014.

Budgetary Summary – Expenditures/Other Financing Uses

Following is a summary of the current year budget and actual results for the District's General Fund expenditures. (See Table 4)

Table 4

Expenditures – General Fund
Year Ended June 30, 2014

	Budget Amount	Actual Amount	Variance From Final Budget
Current:			
Flood protection			
Operations	$ 1,589,084	$ 1,345,860	$ 243,224
Administration	459,000	394,299	64,701
Litigation	100,000	-	100,000
Capital outlay	150,000	1,012,998	(862,998)
	$ 2,298,084	$ 2,753,157	$ (455,073)

Changes from Amounts Originally Budgeted

There were no changes made to the original budget.

Actual Expenditures Compared with Final Budget Amount

Actual expenditures from the District's General Fund were $455,073 more than budgeted. Actual expenditures were lower than budgeted amounts for river bank maintenance, administration and litigation. As discussed earlier, the District purchased a building for its new headquarters and field equipment totaling $1.0 million, $0.9 million more than budgeted for capital outlay for fiscal 2014. The purchase of the building was not included in the budget, but was subsequently approved by the Board.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District has $9.9 million invested in capital assets including levees and equipment. As allowed by GASB Statement No. 34, land and infrastructure have not been included for acquisitions prior to the implementation of the Standard.

The District's capital assets increased from the prior fiscal year as shown in Table 5 below:

Table 5

	As of June 30, 2014	As of June 30, 2013	Increase
Land	$ 242,073	$ -	$ 242,073
Levees and improvements	9,544,047	9,544,047	-
Building	713,061	-	713,061
Equipment	1,513,025	1,479,194	33,831
Tenant improvements	18,281	18,281	-
	$ 12,030,487	$ 11,041,522	$ 988,965

In addition to the building purchased during the year, the District also purchased two trucks to be used for field operations valued at $55,000. Another truck from the District's fleet was sold which resulted in a gain on sale of approximately $1,500.

The District depreciates capital assets using the straight-line method over the estimated lives of the assets. Accumulated depreciation as of June 30, 2014 is $2,128,781.

As of June 30, 2014, the District has designated approximately $1.5 million for future capital outlay expenditures.

Debt Administration

At June 30, 2014, the District had no long-term debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the District office at:

American River Flood Control District

165 Commerce Circle, Suite D

Sacramento, CA 95815

AMERICAN RIVER FLOOD CONTROL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

ASSETS		
Cash and investments - Note B		$ 8,803,072
Receivables:		
Assessments		70,760
Interest		1,114
Other		228,799
Prepaid expenses and deposits		42,691
Capital assets, net - Note C		9,901,706
	TOTAL ASSETS	19,048,142
LIABILITIES		
Accounts payable		78,526
Accrued payroll expense		8,160
Long-term liabilities		
Accrued vacation and sick leave		43,477
Accrual for post-employment benefits - Note E		1,797,191
	TOTAL LIABILITIES	1,927,354
NET POSITION		
Net investment in capital assets		9,901,706
Unrestricted		7,219,082
	TOTAL NET POSITION	$ 17,120,788

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

PROGRAM EXPENSES	
Governmental activities:	
Flood protection	$ 2,138,943
PROGRAM REVENUES	
Charges for services	228,798
NET PROGRAM (EXPENSE) REVENUE	(1,910,145)
GENERAL REVENUES	
Assessments	2,034,541
Interest income	76,947
Gain on sale of capital assets	2,130
Other	7,136
TOTAL GENERAL REVENUES	2,120,754
CHANGE IN NET POSITION	210,609
Net position at beginning of year	16,910,179
NET POSITION AT END OF YEAR	$ 17,120,788

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

BALANCE SHEET – GENERAL FUND

June 30, 2014

ASSETS	
Cash and cash equivalents	$ 8,803,072
Receivables:	
Assessments	70,760
Interest	1,114
Other	228,799
Prepaid costs and deposits	42,691
TOTAL ASSETS	$ 9,146,436
LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable	$ 78,526
Accrued payroll expense	8,160
TOTAL LIABILITIES	86,686
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	32,213
TOTAL DEFERRED INFLOWS OF RESOURCES	32,213
FUND BALANCES	
Nonspendable	42,691
Committed	5,943,558
Unassigned	3,041,288
TOTAL FUND BALANCES	9,027,537
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 9,146,436

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION – GENERAL FUND

June 30, 2014

Fund balance - total governmental funds, June 30, 2014		$ 9,027,537
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Governmental capital assets	12,030,487	
Less: accumulated depreciation	(2,128,781)	9,901,706
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(43,477)
Accrued retiree health benefits		(1,797,191)
Some revenues are not recognized in governmental funds because they do not represent current financial resources that are recognized in the Statement of Activities:		
Unavailable revenue		32,213
Net position - governmental activities, June 30, 2014		$ 17,120,788

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GENERAL FUND

For the Year Ended June 30, 2014

REVENUES		
Assessments		$ 2,049,399
O & M reimbursements		228,798
Use of money		76,947
Other revenues		7,136
	TOTAL REVENUES	2,362,280
EXPENDITURES		
Current:		
Flood protection		
Operations		1,345,860
Administration		394,299
Capital outlay		1,012,998
	TOTAL EXPENDITURES	2,753,157
	EXCESS OF EXPENDITURES OVER REVENUES	(390,877)
OTHER FINANCING SOURCES		
Proceeds from sale of capital assets		2,130
	OTHER FINANCING SOURCES	2,130
	NET CHANGE IN FUND BALANCE	(388,747)
Fund balance at beginning of year		9,416,284
	FUND BALANCE AT END OF YEAR	$ 9,027,537

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GENERAL FUND

For the Year Ended June 30, 2014

Net change in fund balance - total governmental funds for the year ended June 30, 2014		$ (388,747)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. In the statement of activities, however, the cost of those assets are allocated over their estimated useful lives as depreciation expense.		
Capital outlay	$ 1,012,998	
Depreciation expense	(165,719)	847,279
Revenues and expenses in the Government-wide Statement of Activities that do not provide current financial resources are not reported as revenues and expenses in the governmental funds.		
Change in accrued retiree health benefits		(231,403)
Change in unavailable assessments revenue		(14,858)
Change in compensated absences		(1,662)
Change in net position - governmental activities for the year ended June 30, 2014		$ 210,609

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the American River Flood Control District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the District are described below.

Background: The District was formed under an Act of the Legislature of the State of California in 1927. The District is governed under a Board of Trustees and operates and maintains levees in Sacramento County.

Basis of Presentation – Government-wide financial statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Presentation – Fund Financial Statements: The accounts of the District are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund is established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues other than reimbursement revenues to be available if they are collected within 60 days of the end of the current fiscal period. For reimbursement revenues, amounts collected within 180 days of the end of the current fiscal period are considered available. Amounts not received within the 60 or 180 day availability period are reported as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Payable balances consist primarily of payables to vendors.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax assessment revenues, reimbursement revenues and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the District and accounts for revenues collected to provide services and finance the fundamental operations of the District. The Fund is charged with all costs of operations.

Budgets: Budgets are adopted on a basis consistent with generally accepted accounting principles and in accordance with the District's policies and procedures. Budgetary control is exercised by major object. Budgetary changes, if any, during the fiscal year require the approval of the District's Board of Trustees. Unencumbered budget appropriations lapse at the end of the fiscal year.

Prepaid Costs: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs in both government-wide and fund financial statements. Prepaid costs and deposits are reported in the fund financial statements as nonspendable fund balance to indicate they do not constitute resources available for appropriation.

Capital Assets: Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. Capital assets owned by the District are stated at historical cost or estimated historical cost, if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value at the time received. Capital assets are depreciated using the straight-line method over the estimated useful lives.

Levees and improvement	100 years
Construction equipment and mowers	7-10 years
Vehicles	7 years
Shop and levee maintenance equipment	7-10 years
Office equipment and furniture	5-10 years
Computers and accessories	5 years
Tenant improvements	5-10 years
Buildings	30 years

The District's capitalization threshold is $1,000 with no minimum for infrastructure assets and other real property. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase the values, change capacities, or extend the useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences: The District's policies regarding vacation and sick leave permit employees to accumulate earned, but unused vacation and sick leave. The District's policy for sick-pay states that upon retirement, an employee may be paid one-third (up to a maximum of 400 hours) of their accumulated unused sick leave balance. The remaining balance of the employees' sick leave is then available for service credit under the District's pension plan. Alternatively, the employees may elect to use their entire balance of accumulated unused sick leave for service credit under the District's pension plan. All vacation and an estimate of the probable sick leave pay-out is accrued when incurred. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund is used to liquidate compensated absences. All of the accrued vacation and sick leave is considered long-term.

Net Position: The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The District does not have any restricted net position.

Unrestricted Net Position – This category represents net position of the District not restricted for any project or other purpose.

Fund Equity: In the General Fund financial statements, the District reports the following fund balances:

Non-spendable fund balances are not expected to be converted to cash within the next operating cycle and are typically comprised of prepaid costs and deposits.

Committed fund balances include amounts that can be used only for specific purposes determined by a formal action of the Board. The Board has authority to establish, modify, or rescind a fund balance commitment through a resolution of the Board.

Unassigned fund balance is the residual classification for the District's funds and includes all spendable amounts not contained in the other classifications.

The District's committed or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. Committed fund balances consist of the following:

Capital Outlay Projects Fund – To accumulate funds for future capital projects. Such projects represent capital improvement projects to repair damaged levees, improve the reliability of the system and/or increase the District's ability to monitor the system and respond in a flood emergency. As of June 30, 2014, $1,500,000 has been designated by the Board.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Emergency Repair Fund – Funds designated for necessary repairs due to substantial damage from high flows. As of June 30, 2014, $1,500,000 has been designated by the Board.

Emergency Flood Fight Fund – Funds designated to fight flood emergencies and to help prevent the need for future special assessments. As of June 30, 2014, $1,500,000 has been designated by the Board.

Retiree Health Benefits Fund – Funds designated to fund future retiree health benefit costs. As of June 30, 2014, $1,443,558 has been designated by the Board.

Assessments: The District made assessments against properties within the District in accordance with requirements of State law and the American River Flood Control District Act. Assessments are processed through Sacramento County based on the parcel size and designated land use of the parcels. Assessments are payable with the property owner's property taxes. The assessments are typically levied on or before the first day of September each year and become a lien on real property upon levy. Assessments are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. The District recognizes assessments when the individual installments are due provided they are collected within 60 days after year end.

The County uses the Alternative Method of Property Tax Apportionment (Teeter). Under this method of property tax apportionment for assessments collected as part of property taxes, the County purchases the delinquent secured property taxes at June 30 of each fiscal year and guarantees the District 100% of its annual assessment.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements: In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the District to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the PERS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for the financial statements as of June 30, 2015. The District is currently evaluating the effect of this new pronouncement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In November 2013, the GASB approved Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement No. 68 requires a local government employer to recognize a net pension liability measured as of a date (measurement date) no earlier than the end of its prior fiscal year. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. This Statement will be implemented simultaneously with Statement No. 68.

NOTE B – CASH AND INVESTMENTS

Cash and cash equivalents consisted of the following at June 30, 2014:

Cash on hand		$ 43
Deposits with financial institutions		652,619
	Total cash	652,662
City of Sacramento Pool A		6,130,691
Local Agency Investment Fund (LAIF)		2,019,719
	Total investment	8,150,410
	Total cash and investments	$ 8,803,072

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. During the year ended June 30, 2014, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local agency bonds	5 years	None	None
U.S. Treasury securities	5 years	None	None
U.S. Agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates and time deposits	5 years	30%	None
Repurchase agreements	92 days	20%	None
Medium term corporate notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
Pooled investment funds	N/A	None	None

NOTE B – CASH AND INVESTMENTS (Continued)

The District complied with the provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

<u>Investment in the City of Sacramento's Investment Pool</u>: The District maintains a portion of its cash in the City of Sacramento's cash and investment pool which is managed by the City Treasurer. The District's cash balances invested in the City Treasurer's cash and investment pool are stated at fair value. The amount invested by all public agencies in the City's cash and investment pool is $976,637,608 at June 30, 2014. The City does not invest in any derivative financial products directly. However, they do invest in Local Agency Investment Fund (LAIF), which does invest in derivative financial products. The City Council has oversight responsibility for the cash and investment pool. The value of pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

<u>Investment in LAIF</u>: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasurer through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $64,896,335,761, managed by the State Treasurer. Of that amount, 1.09% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

<u>Interest Rate Risk</u>: 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. As of June 30, 2014, the weighted average maturity of the investments contained in the City's investment pool was approximately 2.27 years. As of June 30, 2014, the weighted average maturity of the investment in LAIF was approximately 232 days.

<u>Credit Risk</u>: 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 issued by a nationally recognized statistical rating organization. The City's investment pool and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

<u>Custodial Credit Risk</u>: 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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

NOTE B – CASH AND INVESTMENTS (Continued)

governmental unit). The market 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2014, the carrying amount and the balances in financial institutions of the District's deposits were $652,619 and $660,488, respectively. Of the balance in financial institutions, $250,000 was covered by federal depository insurance and $410,488 was covered by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

NOTE C – CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated:				
Land		$ 242,073		$ 242,073
Capital assets being depreciated:				
Levees and improvements	$ 9,544,047			9,544,047
Building		713,061		713,061
Levee maintenance equipment	1,076,472	2,792	$ (3,954)	1,075,310
Vehicles	365,230	55,072	(20,079)	400,223
Office equipment	37,492			37,492
Tenant improvements	18,281			18,281
Total capital assets, being depreciated	11,041,522	770,925	(24,033)	11,788,414
Less accumulated depreciation for:				
Levees and improvements	(861,315)	(95,557)		(956,872)
Levee maintenance equipment	(755,726)	(54,742)	3,954	(806,514)
Vehicles	(320,041)	(13,309)	20,079	(313,271)
Office equipment	(36,062)	(477)		(36,539)
Tenant improvements	(13,951)	(1,634)		(15,585)
Total accumulated depreciation	(1,987,095)	(165,719)	24,033	(2,128,781)
Total capital assets, being depreciated, net	9,054,427	605,206		9,659,633
Capital assets, net	$ 9,054,427	$ 847,279	$ -	$ 9,901,706

Depreciation expense of $165,719 for the year ended June 30, 2014 was charged to the flood protection function.

NOTE D – DEFINED BENEFIT PENSION PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. PERS requires employers with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. The District staff in PERS as of December 31, 2012 participate in the miscellaneous 2% at 55 Risk Pool. New employees that were not members of PERS as of that date will participate in the Miscellaneous 2% at 62 Risk Pool. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding Policy: Active plan members are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Contributions made by the District on behalf of the employees totaled $47,850 for the year ended June 30, 2014. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for the fiscal years ended June 30, 2014 and 2013 were 10.781% and 10.238%, respectively. The contribution requirements of the plan members and the District are established and may be amended by PERS. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were $75,370, $69,082 and $63,975, respectively, which were equal to the required contributions for each year.

NOTE E – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description: The District provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements. The District's contribution is 100% of the medical premium, which currently ranges from $356 to $2,196. The benefit continues to surviving spouses and dependents.

Funding Policy: The contribution requirements of the District's participants and the District are established by and may be amended by the District pursuant to agreements with its employees. Contributions to the OPEB plan in fiscal 2013/2014 totaled $28,832.

Annual OPEB Cost and Net OPEB Obligation: The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year.

NOTE E – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation for the year ended June 30, 2014:

Annual required contribution	$ 261,644
Interest on net OPEB obligation	54,803
Adjustment to annual required contribution	(56,212)
Annual OPEB cost (expense)	260,235
Contributions made (premiums payments made)	(28,832)
Increase in net OPEB obligation	231,403
Net OPEB obligation, beginning of year	1,565,788
Net OPEB obligation, end of year	$ 1,797,191

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 260,235	11.08%	$ 1,797,191
6/30/2013	87,547	30.87%	1,565,788
6/30/2012	87,547	29.51%	1,505,267

Funded Status and Funding Progress: The funded status of the Plan as of September 1, 2013, the most recent valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 3,584,662
Actuarial value of Plan assets	-
Underfunded actuarial accrued liability (UAAL)	3,584,662
Funded ratio (actuarial value of Plan assets/AAL)	0.00%
Covered payroll (active Plan participants)	704,638
UAAL as a percentage of covered payroll	508.72%

Although the District has not established a trust for funding the OPEB Plan, it has set aside cash in a separate bank account to provide for these benefits.

NOTE E – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the September 2013 actuarial valuation, the entry age normal actuarial cost level of pay method was used. The actuarial assumptions included a 3.5% investment rate of return, a 3% salary increase and a 3% general inflation rate. Premiums were assumed to increase 4% per year.

The District's September 2010 actuarial calculation was based on a 5% investment rate of return; whereas the September 2013 calculation was based on a 3.5% rate of return. This change in return, as well as increased covered payroll used as a base in the calculation resulted in an increase in the District's annual OPEB cost.

Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/1/2013	-	$ 3,584,662	$ 3,584,662	0%	$ 704,638	508.72%
9/1/2010	-	1,443,558	1,443,558	0%	626,063	230.58%
10/17/2007	-	1,223,336	1,223,336	0%	576,718	212.12%

NOTE F – INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public official liability, property damage, fidelity insurance and workers compensation liability. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

NOTE F – INSURANCE (Continued)

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and auto liability (includes public officials liability)	$ 2,000,000	$ 58,000,000	None
Property damage	100,000	100,000,000	$500 to 1,000
Fidelity	100,000	NA	1,000
Workers compensation liability	2,000,000	Statutory	None

NOTE G – COMMITMENTS

The District has entered into leases for its premises at a base rent of $9,450 per month, plus a percentage of the common area maintenance costs. In fiscal year 2014, the District purchased one of the buildings it rented. The District extended its lease on the other facility in May 2014 and is obligated to its lease through June 2015 at a base rent of $5,040 per month. Total rent and common area maintenance expense for the fiscal year ended June 30, 2014 was $130,028. Future minimum lease payments, including estimated common area maintenance expenses, are $74,472 for the year ended June 30, 2015.

NOTE H – CONTINGENCIES

Proposition 218, which was approved by the voters in November 1996, regulates the District's ability to impose, increase, and extend assessments and fees. Any new or increased assessments and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these assessments and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the District's ability to finance the services for which the property assessments were imposed may be significantly impaired. However, the District may also have the ability to assess certain government owned properties which were previously rendered exempt. The effect Proposition 218 will have on the District's ability to maintain or increase the revenue it receives from assessments and fees in the future is unknown.

NOTE I – SUBSEQUENT EVENTS

In September, 2014, the District entered into an agreement for the purchase of a $122,650 excavator for use in its operations. In fiscal year 2014, the District purchased a building for use as its premises. In March 2015, the District awarded a $688,855 contract for the construction of the tenant improvements.

REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

AMERICAN RIVER FLOOD CONTROL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2014

	Budgeted Amounts			Variance With Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES				
Assessments	$ 2,020,000	$ 2,020,000	$ 2,049,399	$ 29,399
O & M reimbursements	210,000	210,000	228,798	18,798
Use of money	70,000	70,000	76,947	6,947
Other revenues			7,136	7,136
TOTAL REVENUES	2,300,000	2,300,000	2,362,280	62,280
EXPENDITURES				
Current:				
Flood protection				
Operations	1,589,084	1,589,084	1,345,860	243,224
Administration	559,000	559,000	394,299	164,701
Capital outlay	150,000	150,000	1,012,998	(862,998)
TOTAL EXPENDITURES	2,298,084	2,298,084	2,753,157	(455,073)
EXCESS OF REVENUES OVER EXPENDITURES	1,916	1,916	(390,877)	(392,793)
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets			2,130	2,130
TOTAL OTHER FINANCING SOURCES			2,130	2,130
NET CHANGE IN FUND BALANCES	1,916	1,916	(388,747)	(390,663)
Fund balance at beginning of year	9,416,284	9,416,284	9,416,284	
FUND BALANCE AT END OF YEAR	$ 9,418,200	$ 9,418,200	$ 9,027,537	$ (390,663)

The accompanying notes are an integral part of these financial statements.

AMERICAN RIVER FLOOD CONTROL DISTRICT

SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL -
GENERAL FUND

For the Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Maintenance and Operations:			
Salaries	$ 696,807	$ 714,279	$ (17,472)
Payroll taxes	53,867	53,116	751
Pension	127,740	126,920	820
Workers compensation insurance	50,170	24,936	25,234
Group insurance	192,500	190,088	2,412
Fuel and oil	35,000	35,030	(30)
Equipment rental	5,000	1,500	3,500
Equipment repairs	25,000	48,497	(23,497)
Equipment purchases less than $1,000	2,000	349	1,651
Small tools and equipment	2,000	1,587	413
Shop supplies	10,000	9,488	512
Levee maintenance supplies	20,000	20,337	(337)
Levee maintenance chemicals	15,000	11,692	3,308
Levee maintenance services	20,000	17,986	2,014
Rodent abatement	15,000	4,794	10,206
Staff training	5,000	3,748	1,252
Employee uniforms	7,000	5,317	1,683
Emergency preparedness	15,000	2,794	12,206
Miscellaneous	2,000	1,292	708
Encroachment remediation	10,000	4,112	5,888
Engineering services	15,000	2,130	12,870
Environmental services	15,000		15,000
Survey services	10,000		10,000
Not-capitalized capital outlay			
Levee Standards Compliance	150,000	42,996	107,004
Vegetation management	10,000	1,283	8,717
Small capital projects	50,000	19,352	30,648
Engineering studies and survey studies	25,000		25,000
Encroachment remediation	5,000	2,237	2,763
	1,589,084	1,345,860	243,224

AMERICAN RIVER FLOOD CONTROL DISTRICT

SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL - (Continued)
GENERAL FUND

For the Year Ended June 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
Administration:			
Utilities	$ 17,000	$ 13,799	$ 3,201
Telephone	8,000	8,004	(4)
Retiree benefits	30,000	28,832	1,168
Office and shop lease	145,000	130,028	14,972
Office equipment and furniture	2,000	282	1,718
Office supplies	2,000	1,221	779
Auto allowance	6,600	7,106	(506)
Technology and software	4,000	3,931	69
Trustee fees	7,250	8,202	(952)
Trustee expenses	2,000	1,605	395
Accounting services	15,000	11,340	3,660
Legal services (general)	50,000	60,326	(10,326)
Dues and association expenses	25,000	20,024	4,976
Insurance premiums	32,000	18,743	13,257
Conferences and workshops	1,500	110	1,390
Public relations and information	35,000	546	34,454
Investment services	13,000	12,176	824
Parking reimbursement	150	260	(110)
General office	9,000	9,623	(623)
Bookkeeping services	10,000	8,175	1,825
County assessment fees	40,000	38,604	1,396
Community services	1,500	1,116	384
Bank service charge		110	(110)
Property acquisition investigation		2,300	(2,300)
Flood litigation	100,000		100,000
Miscellaneous	3,000	7,836	(4,836)
	559,000	394,299	164,701
Captial outlay:			
Capitalized equipment and building	150,000	1,012,998	(862,998)
	150,000	1,012,998	(862,998)
Total expenditures	$ 2,298,084	$ 2,753,157	$ (455,073)

OTHER REPORTS

Richardson & Company, LLP

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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 Trustees
American River Flood Control District
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the American River Flood Control District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees
American River Flood Control District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

April 10, 2015

Richardson & Company, LLP

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

To the Board of Trustees
American River Flood Control District
Sacramento, California

We have audited the financial statements of the American River Flood Control District for the year ended June 30, 2014, and have issued our report thereon dated April 10, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 16, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*

As stated in our engagement letter dated June 16, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no internal control related matters that are required to be communicated under professional standards.

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated June 16, 2014.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: depreciable lives and method used to depreciate capital assets, the amount receivable from the County for delinquent assessments, the accrual for postemployment benefits, and levee improvements constructed by the Army Corps of Engineers. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The accrual for postemployment benefits was determined by an actuarial valuation, which is required to be performed every three years. The most recent actuarial calculation was prepared as of September 2013, which was used to prepare the June 30, 2014 financial statements. This actuarial calculation resulted in an increased annual cost from approximately $88,000 per year to $260,000 per year due to a reduction in the assumed investment rate of return, as well as increased healthcare costs and salaries since the last actuarial calculation was performed in September 2010.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of assessments and fees in Note H to the financial statements. This disclosure describes the tentative nature of assessments and fees collected under Proposition 218.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Five audit adjustments were proposed to update the accrued vacation balance, adjust the County assessment accrual for the final fiscal year 2013/14 assessments, update the OPEB annual required contribution, reclassify the land portion of the building purchased, and reclassify net position among the components.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 10, 2015.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Board of Trustees and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

April 10, 2015