

AMERICAN RIVER FLOOD CONTROL DISTRICT

**Audited Financial Statements
and Other Reports**

June 30, 2018

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AMERICAN RIVER FLOOD CONTROL DISTRICT

Audited Financial Statements
and Other Reports

June 30, 2018

Audited Financial Statements

Independent Auditor’s Report..... 1
Management’s Discussion and Analysis..... 4

Government-wide Financial Statements:

Statement of Net Position 12
Statement of Activities..... 13

Fund Financial Statements:

Balance Sheet – General Fund..... 14
Reconciliation of the Balance Sheet to the Government-wide
Statement of Net Position – General Fund..... 15
Statement of Revenues, Expenditures, and Changes in Fund Balance
– General Fund..... 16
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Government-wide Statement of
Activities – General Fund 17
Notes to Basic Financial Statements..... 18

Required Supplementary Information (Unaudited):

Schedule of the Proportionate Share of the Net Pension Liability –
Miscellaneous Plan 34
Schedule of Contributions to the Pension Plan – Miscellaneous Plan..... 34
Schedule of Changes in the total OPEB Liability and Related Ratios..... 35
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund 36

Other Supplementary Information:

Schedule of Expenditures – Budget and Actual – General Fund..... 37

Other Reports

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 39

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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, 2018, 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.

To the Board of Trustees
American River Flood Control District

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, 2018 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.

Change in Accounting Principles

As discussed in Note I to the financial statements, during the year ended June 30, 2018, the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions to the pension plan, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison information on pages 4 to 11 and 34 to 36 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.

To the Board of Trustees
American River Flood Control District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019 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 12, 2019

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis

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, 2018. 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 2017/2018

- At the end of the current year, total net position (total assets less total liabilities) of the District was a positive \$16.0 million.
- During the year, the District's net position decreased by approximately \$972,000. The decrease was a result of the District's governmental activities (flood protection) and the restatement of beginning net position as a result of the implementation of Governmental Accounting Standards Board Statement (GASB) 75. See Note I of the basic financial statements. 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 \$9.7 million. The amount of the unassigned fund balance was \$2,216,000, and the remainder was committed by the Board or in nonspendable form.
- The District's capital asset balance before depreciation was \$13.4 million at the end of the year.
- The District has recognized a liability in the amount of \$1.0 million for a net pension obligation due to Governmental Accounting Standards Board Statement (GASB) 68. See Note E of the basic financial statements.
- The District has recognized a liability in the amount of \$3.8 million for post-employment benefits. The liability increased approximately \$1.5 million from the prior year. See Note F of the basic financial statements.

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.

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

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 15 and 17 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 18 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 pension plan, other postemployment benefits and budget and actual revenue and expenditures on a budgetary basis. The RSI can be found on pages 34 to 36 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 \$16.0 million at the close of the most recent fiscal year. Of this amount \$10.6 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)

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

Table 1
Statement of Net Position
June 30, 2018 and 2017
(in thousands)

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 10,041	\$ 9,269
Capital assets	<u>10,624</u>	<u>10,820</u>
Total assets	<u>20,665</u>	<u>20,089</u>
Deferred outflow of resources – pensions	359	248
Current liabilities	52	55
Long term liabilities:		
Accrued vacation and sick leave	40	32
Capital lease	6	8
Net pension liability	1,032	860
Accrual for post-employment benefits	<u>3,819</u>	<u>2,363</u>
Total liabilities	<u>4,949</u>	<u>3,318</u>
Deferred inflow of resources – pensions	119	91
Net position:		
Net investment in capital assets	10,616	10,811
Unrestricted net position	<u>5,340</u>	<u>6,117</u>
Total net position	<u>\$ 15,956</u>	<u>\$ 16,928</u>

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 costs for the levees, many of which were constructed over 50 years ago.

During the fiscal year ended June 30, 2018, there were no major additions to capital assets from levee improvements; however, during fiscal 2018 additional levee maintenance equipment was purchased for \$48,000, shop equipment for \$6,000 and security fencing for \$25,000 was installed on the District's remote staging lot. A fully depreciated trailer and shop equipment was sold during the year which resulted in the District realizing a gain of approximately \$3,700.

During 2016, the District purchased a vacant lot for approximately \$79,000 in proximity to the levees it maintains. The purpose was to store material and equipment at the site so it could respond to levee needs and emergencies in a more efficient manner. However, because of conflicts in obtaining the necessary permits from the City of Sacramento, the District has not yet been able to use the land for its intended purpose. The District has begun the effort to grant an easement on the parcel to the State of California to effectively merge the lot with the adjacent levee parcel. This will enable the intended use of the land since State levee parcels maintained by the District are not subject to residential zoning restrictions. Conclusion of the land easement transfer to the State of California is expected in the spring of 2019.

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

Restricted Net Position

The District has no restricted net position as of June 30, 2018.

Unrestricted Net Position

The District's unrestricted net position at June 30, 2018 totaled approximately \$5.3 million. The entire unrestricted net position balance has been set aside by the Board for flood emergency, emergency repairs, future retiree health benefits, and future capital improvements.

Post Employment Benefits

The District implemented GASB 75 during the fiscal year and had a fifth actuarial study performed for its post-employment benefits indicating that their plan has an unfunded accrued liability balance of \$3,818,727 at June 30, 2018. During 2018, the District recognized a restatement to beginning net position in the amount of \$1,400,000, and paid \$136,000 against this liability, to bring the liability to its estimated carrying value at June 30, 2018. See also Notes F and I to the financial statements for additional information. The next actuarial study is scheduled to be performed in 2019.

Net Pension Liability

The District implemented GASB 68 during fiscal year 2015, which resulted in the District recording their share of the unfunded net pension liability. During fiscal year 2018, the District contributed \$88,000 for employer required contributions to the pension plan and the unfunded net pension liability increased \$172,310 to \$1,032,329. In addition, the District has recorded deferred outflows and deferred inflows related to pensions of \$358,673 and \$118,648, respectively.

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

Governmental Activities

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

Table 2
Statement of Activities
Years Ended June 30, 2018 and 2017
(in thousands)

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues -		
O & M reimbursement agreements	\$ 221	\$ 246
General revenues -		
Assessments	2,169	2,043
Interest income	139	108
Miscellaneous	4	5
Total revenues	<u>2,533</u>	<u>2,402</u>
Expenses:		
Flood protection	<u>2,086</u>	<u>2,378</u>
Changes in net position	447	24
Net position – beginning of year, as restated in 2018	<u>15,509</u>	<u>16,904</u>
Net position – end of year	<u>\$ 15,956</u>	<u>\$ 16,928</u>

The District's change in net position was \$447,000 during the current fiscal year. Overall revenues increased from \$2,402,000 in 2017 to \$2,533,000 in 2018. Assessment revenues increased \$126,000 and interest income increased \$31,000. Flood protection expenses decreased \$292,000 from \$2,378,000 in 2017 to \$2,086,000 in 2018. Major decreases in flood protection were a result of decreases in employee salaries, levee maintenance services and supplies, emergency preparedness, and engineering related expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the fiscal year-end, the District's governmental funds reported a combined fund balance of \$9.7 million, an increase of \$.8 million from the previous year's fund balance. The current year-end fund balance consists of \$7.5 million in committed funds for emergencies and capital improvements as follows:

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

The Board has designated \$1.5 million for the Emergency Flood Fight Fund to be used by the District to initiate a flood emergency response and \$1.5 million has been designated for the Emergency Repair Fund. These funds will be used to initiate immediate repairs to levees 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 \$3 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.

The remaining \$2,216,134 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 almost \$2.6 million. Assessment revenue of \$2.2 million was the major source (85%) of revenue for the governmental fund. O & M reimbursements (\$245,000) accounted for 10% of revenues and interest income (\$138,000) accounted for 5%. Expenditures from the governmental fund were \$1.8 million, which resulted in \$802,212 in revenues over expenditures for District operations.

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, 2018
(in thousands)

	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Variance From Final Budget</u>
Assessments	\$ 2,035	\$ 2,176	\$ 141
O & M reimbursement agreements	225	245	20
Interest income	75	139	64
	<u>\$ 2,335</u>	<u>\$ 2,560</u>	<u>\$ 225</u>

Changes from Amounts Originally Budgeted

There were no changes made to the original budget.

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the District's General Fund were \$225,000 more than budget. The variance was primarily due to assessment revenue and interest income being more than originally budgeted.

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, 2018
(in thousands)

	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Variance From Final Budget</u>
Current:			
Flood protection			
Operations	\$ 1,503	\$ 1,248	\$ 255
Administration	522	428	94
Debt service			
Principal	-	2	(2)
Interest payments	-	1	(1)
Capital outlay	<u>70</u>	<u>79</u>	<u>(9)</u>
	<u>\$ 2,095</u>	<u>\$ 1,758</u>	<u>\$ 337</u>

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 \$337,308 less than budgeted. Favorable variances from budget were noted in maintenance and operations activities, and administration.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District has \$10.6 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.

AMERICAN RIVER FLOOD CONTROL DISTRICT CALIFORNIA

Management's Discussion and Analysis (Continued)

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

Table 5
Capital Assets

	As of June 30, 2018	As of June 30, 2017	Increase (Decrease)
Land	\$ 321,463	\$ 321,463	\$ -
Levees and improvements	9,544,047	9,544,047	-
Building	1,763,304	1,763,304	-
Equipment	1,774,986	1,725,927	49,059
Building improvements	34,878	9,899	24,979
	<u>\$13,438,678</u>	<u>\$ 13,364,640</u>	<u>\$ 74,038</u>

During fiscal 2018, additional levee maintenance equipment was purchased for \$48,000, shop equipment for \$6,000 and security fencing for \$25,000 was installed on the District's remote staging lot. A fully depreciated trailer and shop equipment was sold during the year which resulted in the District realizing a gain of approximately \$3,700.

The District depreciates capital assets using the straight-line method over the estimated lives of the assets. Accumulated depreciation as of June 30, 2018 is \$2,814,487.

See Note C for more information on the District's capital assets.

As of June 30, 2018, the District has designated approximately \$1,500,000 for future capital outlay expenditures.

Debt Administration

The District entered into a capital lease for office equipment during 2017 at a cost of approximately \$10,000. See Note D for more information on the District's long-term liabilities.

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

185 Commerce Circle

Sacramento, CA 95815

AMERICAN RIVER FLOOD CONTROL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

ASSETS	
Cash and investments - Note B	\$ 8,924,126
Receivables:	
Assessments	65,263
Interest	2,574
Due from other agencies	1,001,348
Prepaid expenses	47,670
Capital assets, net - Note C	10,624,191
TOTAL ASSETS	<u>20,665,172</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>358,673</u>
LIABILITIES	
Accounts payable	49,917
Accrued payroll expense	376
Current portion of capital lease	1,861
Long-term liabilities	
Accrued vacation and sick leave	39,778
Capital lease	5,963
Net pension liability - Note E	1,032,329
Accrual for post-employment benefits - Note F	3,818,727
TOTAL LIABILITIES	<u>4,948,951</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	<u>118,648</u>
NET POSITION	
Net investment in capital assets	10,616,367
Unrestricted	<u>5,339,879</u>
TOTAL NET POSITION	<u>\$ 15,956,246</u>

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, 2018

PROGRAM EXPENSES	
Governmental activities:	
Flood protection	\$ 2,085,591
PROGRAM REVENUES	
Charges for services	<u>221,348</u>
NET PROGRAM EXPENSES	(1,864,243)
GENERAL REVENUES	
Assessments	2,169,132
Interest income	138,730
Gain on sale of capital assets	<u>3,658</u>
TOTAL GENERAL REVENUES	<u>2,311,520</u>
CHANGE IN NET POSITION	447,277
Net position at beginning of year - as previously reported	16,928,010
Restatement for change in accounting principles - Note I	<u>(1,419,041)</u>
Net position at beginning of year - as restated	<u>15,508,969</u>
NET POSITION AT END OF YEAR	<u><u>\$ 15,956,246</u></u>

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

AMERICAN RIVER FLOOD CONTROL DISTRICT

BALANCE SHEET – GENERAL FUND

June 30, 2018

ASSETS		
Cash and cash equivalents		\$ 8,924,126
Receivables:		
Assessments		65,263
Interest		2,574
Due from other agencies		1,001,348
Prepaid costs		<u>47,670</u>
	TOTAL ASSETS	<u>\$10,040,981</u>
LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES AND FUND BALANCES		
LIABILITIES		
Accounts payable		\$ 49,917
Accrued payroll expense		<u>376</u>
	TOTAL LIABILITIES	<u>50,293</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue		<u>246,870</u>
FUND BALANCES		
Nonspendable		47,670
Committed		7,480,014
Unassigned		<u>2,216,134</u>
	TOTAL FUND BALANCES	<u>9,743,818</u>
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$10,040,981</u>

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, 2018

Fund balance - total governmental funds, June 30, 2018		\$ 9,743,818
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	\$ 13,438,678	
Less: accumulated depreciation	<u>(2,814,487)</u>	10,624,191
Employee pension differences will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.		
		358,673
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued vacation and sick leave		(39,778)
Capital lease		(7,824)
Net pension liability		(1,032,329)
Accrual for post-employment benefits		(3,818,727)
Employee pension differences to be recognized in the future as pension expense are reported as deferred inflows of resources on the statement of net position.		
		(118,648)
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		<u>246,870</u>
Net position - governmental activities, June 30, 2018		<u><u>\$ 15,956,246</u></u>

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, 2018

REVENUES		
Assessments	\$ 2,175,918	
O & M reimbursements	245,528	
Use of money	138,730	
TOTAL REVENUES	2,560,176	
EXPENDITURES		
Current:		
Flood protection		
Maintenance and operations	1,248,398	
Administration	428,267	
Debt service		
Principal	1,774	
Interest payments	496	
Capital outlay	79,029	
TOTAL EXPENDITURES	1,757,964	
EXCESS OF REVENUES OVER EXPENDITURES	802,212	
OTHER FINANCING SOURCES		
Proceeds from sale of capital assets	3,658	
OTHER FINANCING SOURCES	3,658	
NET CHANGE IN FUND BALANCE	805,870	
Fund balance at beginning of year	8,937,948	
FUND BALANCE AT END OF YEAR	\$ 9,743,818	

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, 2018

Net change in fund balance - total governmental funds for the year
ended June 30, 2018 \$ 805,870

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	\$ 79,029	
Depreciation expense	<u>(275,059)</u>	(196,030)

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 accrual for post-employment benefits		(36,541)
Change in unavailable revenue		(30,966)
Change in accrued vacation and sick leave		(7,829)
Principal payments on capital lease		1,774
Change in deferred outflows of resources related to employee pensions		110,855
Change in employee net pension obligation		(172,310)
Change in deferred inflows of resources related to employee pensions		<u>(27,546)</u>

Change in net position - governmental activities for the year ended June 30, 2018 \$ 447,277

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

AMERICAN RIVER FLOOD CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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 unavailable revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Payable balances consist primarily of payables to vendors.

AMERICAN RIVER FLOOD CONTROL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

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
Building improvements	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.

AMERICAN RIVER FLOOD CONTROL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Vacation and Sick Leave: 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 and any outstanding debt related to the purchase of capital assets 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.

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, 2018, \$1,500,000 has been designated by the Board.

Emergency Repair Fund – Funds designated for necessary repairs due to substantial damage from high flows. As of June 30, 2018, \$1,500,000 has been designated by the Board.

AMERICAN RIVER FLOOD CONTROL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Emergency Flood Fight Fund – Funds designated to fight flood emergencies and to help prevent the need for future special assessments. As of June 30, 2018, \$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, 2018, \$2,980,014 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.

Deferred Outflows and Inflows of Resources: In addition to assets and liabilities, the statement of net position reports separate sections for deferred outflows and deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earning process is complete. Deferred outflows and inflows of resources represent amounts deferred related to the District's pension and OPEB plans as described in Notes E and F, and for revenue not received within the availability period.

Pensions: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deletions from the OPEB plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's), which is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The timing and pattern of recognition of the liability and corresponding deferred outflow of resources recorded is defined in this Statement. This Statement is effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying and disclosing fiduciary activities of state and local governments. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements of the government. Four fiduciary funds should be reported under this statement: Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds. This Statement is effective for periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurements and application, pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2017.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE B – CASH AND INVESTMENTS

Cash and cash equivalents consisted of the following at June 30, 2018:

Cash on hand	\$	1
Deposits with financial institutions		547,994
	Total cash	547,995
City of Sacramento Pool A		7,933,301
Local Agency Investment Fund (LAIF)		442,830
	Total investment	8,376,131
	Total cash and investments	\$ 8,924,126

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS (Continued)

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, 2018, 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

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.

Investment in the City of Sacramento's Investment Pool: 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 \$1,096,617,396 at June 30, 2018. 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.

AMERICAN RIVER FLOOD CONTROL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE B – CASH AND INVESTMENTS (Continued)

Investment in LAIF: 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 \$88,949,144,131, managed by the State Treasurer. Of that amount, 1.89% 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.

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. As of June 30, 2018, the weighted average maturity of the investments contained in the City's investment pool was approximately 1.92 years. As of June 30, 2018, the weighted average maturity of the investment in LAIF was approximately 193 days.

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 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.

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 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 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, 2018, the carrying amount and the balances in financial institutions of the District's deposits were \$547,994 and \$550,527, respectively. Of the balance in financial institutions, \$250,000 is covered by federal depository insurance and amounts in excess of this balance are 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.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 321,463			\$ 321,463
Capital assets being depreciated:				
Levees and improvements	9,544,047			9,544,047
Building	1,763,304			1,763,304
Levee maintenance equipment	1,272,808	\$ 54,049	\$ (4,991)	1,321,866
Vehicles	388,466			388,466
Office equipment	64,653			64,653
Building improvements	9,899	24,980		34,879
Total capital assets, being depreciated	<u>13,043,177</u>	<u>79,029</u>	<u>(4,991)</u>	<u>13,117,215</u>
Less accumulated depreciation for:				
Levees and improvements	(1,243,488)	(95,426)		(1,338,914)
Building	(93,063)	(58,777)		(151,840)
Levee maintenance equipment	(931,725)	(84,579)	4,991	(1,011,313)
Vehicles	(249,490)	(29,356)		(278,846)
Office equipment	(21,606)	(6,276)		(27,882)
Building improvements	(5,047)	(645)		(5,692)
Total accumulated depreciation	<u>(2,544,419)</u>	<u>(275,059)</u>	<u>4,991</u>	<u>(2,814,487)</u>
Total capital assets, being depreciated, net	<u>10,498,758</u>	<u>(196,030)</u>	<u>-</u>	<u>10,302,728</u>
Capital assets, net	<u>\$ 10,820,221</u>	<u>\$ (196,030)</u>	<u>\$ -</u>	<u>\$ 10,624,191</u>

Depreciation expense of \$275,059 for the year ended June 30, 2018 was charged to the flood protection function.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE D – LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the year ended June 30, 2018.

	Restated Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Accrued vacation and sick leave	\$ 31,949	\$ 7,829		\$ 39,778	
Capital lease obligation	9,598		\$ (1,774)	7,824	\$ 1,861
Net pension liability	860,019	172,310		1,032,329	
Accrual for post-employment benefits	3,782,186	36,541		3,818,727	
	<u>\$ 4,683,752</u>	<u>\$ 216,680</u>	<u>\$ (1,774)</u>	<u>\$ 4,898,658</u>	<u>\$ 1,861</u>

The District's capital lease consists of the following:

Copier Lease: In May 2017, the District entered into a capital lease for the acquisition of a copier. The lease has an interest rate of 4.77%, with monthly payments of \$183 through May 2022. The cost of the copier is \$9,742 and accumulated depreciation is \$2,111 at June 30, 2018.

Annual debt service requirement of the District's long-term debt obligations are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,861	\$ 333	\$ 2,194
2020	1,951	243	2,194
2021	2,047	147	2,194
2022	1,965	47	2,012
	<u>\$ 7,824</u>	<u>\$ 770</u>	<u>\$ 8,594</u>

NOTE E – PENSION PLANS

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). The District has the following cost-sharing Plans:

- Miscellaneous Plan
- PEPRM Miscellaneous Plan (inactive)

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – PENSION PLANS (Continued)

Benefit provisions under the Plans are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	PEPRA Miscellaneous
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	9.409%	6.842%

Included in the contribution rates above, the District was also required to make payments of \$38,716 toward its unfunded actuarial liability during the year ended June 30, 2018.

The Miscellaneous Plan is closed to new members that are not already CalPERS participants.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions made to the Plan were \$88,435.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Miscellaneous Plan of \$1,032,329.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – PENSION PLANS (Continued)

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.02476%
Proportion - June 30, 2017	0.02619%
Change - Increase (Decrease)	0.00143%

For the year ended June 30, 2018, the District recognized pension expense of \$177,436. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to all Plans combined from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 88,435	
Differences between actual and expected experience	1,574	\$ (22,549)
Changes in assumptions	195,288	(14,891)
Change in employer's proportion	29,210	(14,588)
Differences between the employer's contribution and the employer's proportionate share of contributions		(66,620)
Net differences between projected and actual earnings on plan investments	44,166	
Total	\$ 358,673	\$ (118,648)

The \$88,435 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2019	\$ 13,811
2020	102,849
2021	61,152
2022	(26,222)
	\$ 151,590

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – PENSION PLANS (Continued)

Actuarial Assumptions: The total pension liabilities in the June 30, 2016 actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

Valuation Date		June 30, 2016
Measurement Date		June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate		7.15%
Inflation		2.75%
Payroll Growth		3.0%
Projected Salary Increase		3.3% - 12.2% (1)
Investment Rate of Return		7.50% (2)
Mortality	Developed using CalPERS Membership Data for all funds	

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2018 were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE E – PENSION PLANS (Continued)

In June 30, 2017 accounting valuation, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

The table below reflects the long-term expected real rate of return by asset class for the Plan. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 1,676,053
Current Discount Rate	7.15%
Net Pension Liability	\$ 1,032,329
1% Increase	8.15%
Net Pension Liability	\$ 499,185

Pension Plan Fiduciary Net Position: Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan: At June 30, 2018, the District had no payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description: The District's defined benefit OPEB plan (OPEB Plan) provides OPEB benefits for all permanent full-time employees and part-time employees, who work at least 1,000 hours per year, for the District. Benefits are set and may be amended by the Board of Trustees. The OPEB Plan is a single employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As of June 30, 2018, the District has \$2,980,014 designated in its Retiree Benefits Fund for future OPEB obligations. Since these funds are not held in an irrevocable trust to provide benefits to plan members, these funds do not meet the criteria in paragraph 4 of Statement 75.

Benefits Provided: The OPEB Plan provides healthcare and insurance benefits to all permanent full-time employees and eligible part-time employees who retire directly from the District. The District provides benefits through the Association of California Water Agencies. Eligible employees' surviving spouses are also eligible for benefits. For employees hired before November 15, 2006, the District pays 100% of the health insurance premium for employees and their eligible spouses and dependents. Employees hired after November 15, 2006 must have provided a minimum of five years of service to be eligible for benefits. The District pays a portion of the husband and wife medical insurance premium rate for employees who have completed five or more years of service. The District pays 25% of the husband and wife medical insurance premium rate for retirees who have five to ten years of service completed. The District pays an additional 2.5% of the husband and wife medical insurance premium rate for each additional year of service over ten years, up to a maximum of 50% for twenty or more years of service. Retirees must enroll in Medicare Parts A, Part B, and Part D when they are eligible for Medicare and must pay all Medicare Premiums at their own costs to be eligible for benefits.

Employees Covered by Benefit Terms: As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Inactive employees or beneficiaries currently receiving benefit payments	8
Active employees	8
Total	16

Total OPEB Liability: The District's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions and Other Inputs: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial assumptions:	
Inflation	4.00%
Salary increases	Varies with age, grading down to 3.00% annually
Discount rate	3.50%
Mortality rate	Derived using CalPERS Membership Data
Pre-retirement turnover	Derived using CalPERS Membership Data
Healthcare trend rate	4.00%

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE F – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The discount rate was based on the anticipated long-term yield on a 20-year municipal bond index.

Mortality information was based on the CalPERS Experience Study dated January 2014 Tables based on the results from of an actuarial experience study for the period 1997 to 2011. The experience study report may be accessed on the CALPERS website at <https://www.calpers.ca.gov>.

Changes in the Total OPEB Liability: The change in the total OPEB liability for the plan is as follows:

	Increase (Decrease) Total OPEB Liability
Balance at July 1, 2017	\$ 3,782,186
Changes in the year:	
Service cost	63,795
Interest	129,920
Benefit payments	(157,174)
Net changes	36,541
Balance at June 30, 2018	\$ 3,818,727

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Net OPEB liability	\$ 4,455,671	\$ 3,818,727	\$ 3,191,132

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease 3.00%	Current Healthcare Cost Trend Rates 4.00%	1% Increase 5.00%
Net OPEB liability	\$ 3,204,076	\$ 3,818,727	\$ 4,423,652

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the District recognized OPEB expense of \$172,667. At June 30, 2018, the District had no deferred outflows or inflows related to the OPEB plan.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2018

NOTE G – 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.

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)	\$ 5,000,000	\$ 55,000,000	None
Property damage	100,000	150,000,000	\$500 to 1,000
Fidelity	100,000	NA	1,000
Workers compensation liability	2,000,000	Statutory	None

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 – CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement required the District to recognize in its accrual basis financial statements the total OPEB liability, deferred outflows of resources and deferred inflows of resources for the District’s retiree health benefits plans.

Due to the implementation of this Statement, total liabilities increased by \$1,419,041 and total net position decreased by \$1,419,041 as of July 1, 2017.

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REQUIRED SUPPLEMENTARY INFORMATION

AMERICAN RIVER FLOOD CONTROL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN
Last 10 Years**

	2018	2017	2016	2015
Proportion of the net pension liability	0.02619%	0.02476%	0.02269%	0.02458%
Proportionate share of the net pension liability	\$ 1,032,329	\$ 860,019	\$ 622,519	\$ 607,424
Covered - employee payroll - measurement period	\$ 577,710	\$ 667,525	\$ 657,579	\$ 708,794
Proportionate share of the net pension liability as a percentage of covered payroll	178.69%	128.84%	94.67%	85.70%
Plan fiduciary net position as a percentage of the total pension liability	77.94%	78.90%	83.70%	83.03%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes in assumptions: The discount rate was changed from 7.5% in 2015 to 7.65% in 2016 and 2017, and to 7.15% in 2018.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN
Last 10 Years**

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 88,435	\$ 80,014	\$ 82,858	\$ 75,370
Contributions in relation to the actuarially determined contributions	(88,435)	(80,014)	(82,858)	(75,370)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll - fiscal year	\$ 596,436	\$ 577,710	\$ 667,525	\$ 657,579
Contributions as a percentage of covered - employee payroll	14.83%	13.85%	12.41%	11.46%

Notes to Schedule:

Valuation date:

Methods and assumptions used to determine contribution rates:

	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Amortization method			Entry age normal	
Remaining amortization period	12 years	13 years	14 years	15 years
Asset valuation method			5-year smoothed market	
Inflation			2.75%	
Salary increases			Varies by entry age and service	
Investment rate of return			7.50%, net of pension plan investment expense, including inflation	

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

AMERICAN RIVER FLOOD CONTROL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

For the measurement periods ended June 30

	2018
Total OPEB liability	
Service cost	\$ 63,795
Interest	129,920
Benefit payments	<u>(157,174)</u>
Net change in total OPEB liability	36,541
Total OPEB liability - beginning	<u>3,782,186</u>
Total OPEB liability - ending	<u><u>\$ 3,818,727</u></u>
Covered-employee payroll - measurement period	<u>\$ 596,436</u>
Total OPEB liability as percentage of covered-employee payroll	<u><u>640.26%</u></u>
Notes to schedule:	
Valuation date	June 30, 2017
Measurement period - calendar year ended	June 30, 2017
Discount Rate	3.50%

Note: No assets are accumulated in a trust that meets the criteria in GASB Statement 75, paragraph 4, to pay related benefits.

Benefit changes. None since June 30, 2017.

Changes in assumptions. None since June 30, 2017.

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2017. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

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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, 2018

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Assessments	\$ 2,035,000	\$ 2,035,000	\$ 2,175,918	\$ 140,918
O & M reimbursements	225,000	225,000	245,528	20,528
Use of money	75,000	75,000	138,730	63,730
Other revenues	3,500	3,500	-	(3,500)
TOTAL REVENUES	2,338,500	2,338,500	2,560,176	221,676
EXPENDITURES				
Current:				
Flood protection				
Maintenance and operations	1,502,625	1,502,625	1,248,398	254,227
Administration	522,647	522,647	428,267	94,380
Debt service				
Principal	-	-	1,774	(1,774)
Interest payments	-	-	496	(496)
Capital outlay	70,000	70,000	79,029	(9,029)
TOTAL EXPENDITURES	2,095,272	2,095,272	1,757,964	337,308
EXCESS OF REVENUES OVER EXPENDITURES	243,228	243,228	802,212	558,984
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	3,658	3,658
TOTAL OTHER FINANCING SOURCES	-	-	3,658	3,658
NET CHANGE IN FUND BALANCES	243,228	243,228	805,870	562,642
Fund balance at beginning of year	8,937,948	8,937,948	8,937,948	-
FUND BALANCE AT END OF YEAR	\$ 9,181,176	\$ 9,181,176	\$ 9,743,818	\$ 562,642

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, 2018

	Final Budget	Actual	Variance Positive (Negative)
Maintenance and Operations:			
Salaries	\$ 664,645	\$ 627,037	\$ 37,608
Payroll taxes	53,172	46,200	6,972
Pension	124,602	118,652	5,950
Workers compensation insurance	33,232	28,586	4,646
Group insurance	189,474	168,671	20,803
Fuel and oil	30,000	25,069	4,931
Equipment rental	6,500	28,347	(21,847)
Equipment repairs	40,000	38,464	1,536
Equipment purchases less than \$1,000	5,000	-	5,000
Small tools and equipment	3,000	1,561	1,439
Shop supplies	12,000	16,986	(4,986)
Levee maintenance supplies	17,000	7,364	9,636
Levee maintenance chemicals	20,000	14,858	5,142
Levee maintenance services	34,000	59,226	(25,226)
Rodent abatement	10,000	8,156	1,844
Staff training	15,000	5,566	9,434
Employee uniforms	5,000	6,730	(1,730)
Emergency preparedness	20,000	6,907	13,093
Miscellaneous	2,000	711	1,289
Encroachment remediation	15,000	-	15,000
Engineering services	8,000	16,452	(8,452)
Not-capitalized capital outlay			
Levee Standards Compliance	100,000	11,173	88,827
Small capital projects	50,000	8,610	41,390
Engineering studies and survey studies	15,000	-	15,000
La Riviera improvements	30,000	3,072	26,928
	<u>1,502,625</u>	<u>1,248,398</u>	<u>254,227</u>

AMERICAN RIVER FLOOD CONTROL DISTRICT

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

For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Administration:			
Utilities	\$ 25,000	\$ 31,938	\$ (6,938)
Telephone	12,500	17,567	(5,067)
Retiree benefits	135,270	136,126	(856)
Office equipment and furniture	10,000		10,000
Office supplies	2,000	916	1,084
Auto allowance	7,100	7,084	16
Technology and software	17,000	6,284	10,716
Trustee fees	7,900	6,030	1,870
Trustee expenses	1,750	1,448	302
Accounting services	15,000	13,310	1,690
Legal services (general)	50,000	30,464	19,536
Dues and association expenses	25,000	21,124	3,876
Insurance premiums	30,000	6,318	23,682
Conferences and workshops	1,500	-	1,500
Public relations and information	35,000	22,962	12,038
Investment services	13,000	14,680	(1,680)
Parking reimbursement	150	96	54
General office	13,000	9,882	3,118
Bookkeeping services	12,000	10,031	1,969
County assessment fees	21,000	37,804	(16,804)
County technology fees	60,477	37,904	22,573
Community services	1,500	1,000	500
Building maintenance	17,000	4,397	12,603
Property taxes	3,000	1,660	1,340
Employee morale and wellness	1,500	1,047	453
Miscellaneous	5,000	8,195	(3,195)
	<u>522,647</u>	<u>428,267</u>	<u>94,380</u>
Debt service			
Principal	-	1,774	(1,774)
Interest payments	-	496	(496)
	<u>-</u>	<u>2,270</u>	<u>(2,270)</u>
Capital outlay:			
Capitalized equipment and building	70,000	79,029	(9,029)
	<u>70,000</u>	<u>79,029</u>	<u>(9,029)</u>
Total expenditures	<u>\$ 2,095,272</u>	<u>\$ 1,757,964</u>	<u>\$ 337,308</u>

OTHER REPORTS



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

To the Board of 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, 2018, 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 12, 2019.

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 12, 2019

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