

**SANTA ANA RIVER FLOOD  
PROTECTION AGENCY**  
Financial Statements  
June 30, 2017 and 2016  
(with Independent Auditor's Report Thereon)



Certified  
Public  
Accountants



**SANTA ANA RIVER FLOOD PROTECTION AGENCY**

Financial Statements  
June 30, 2017 and 2016

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## Independent Auditor's Report

Board of Commissioners  
The Santa Ana River Flood Protection Agency  
Santa Ana, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Santa Ana River Flood Protection Agency (Agency) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Ana River Flood Protection Agency as of June 30, 2017 and 2016, and the changes in financial position thereof and the budgetary comparison for the General Fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Newport Beach, California

February 20, 2018

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Management's Discussion And Analysis (Unaudited)  
June 30, 2017 and 2016

The management's discussion and analysis of the financial performance provides a narrative overview and analysis of the Santa Ana River Flood Protection Agency's financial activities for the years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the information furnished in the Santa Ana River Flood Protection Agency's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Santa Ana River Flood Protection Agency's Fund Balance increased by \$6,124, 16.3%, in 2017 from 2016; and increased by \$1,865, 5.2%, in 2016 from 2015.
- Contributions from members continues to be the sole source of revenue for the Santa Ana River Flood Protection Agency.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Santa Ana River Flood Protection Agency is an organization developed to support the implementation of the Santa Ana River Mainstem Project and associated local drainage improvements in Orange County. The Santa Ana River Flood Protection Agency is organized as a Joint Powers Authority and is supported by revenue from membership dues.

The financial statements are divided into two components:

1. Financial Statements: Statement of Net Position and General Fund Balance Sheet; Statement of Activities and General Fund Statement of Revenues, Expenditures and Changes in Fund Balance; General Fund Budgetary Comparison Statement; and
2. Notes to Financial Statements.

**Statement of Net Position and General Fund Balance Sheet**

This section provides the statement of position for all of the Santa Ana River Flood Protection Agency's current and noncurrent assets and liabilities in both financial and capital positions with the difference between the two reported as net position. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.

**Statement of Activities and General Fund Statement of Revenues, Expenditures and Changes in Fund Balance**

This section provides the statement of activities for all the Santa Ana River Flood Protection Agency's revenues and expenses during the year. This section also shows how fund balance changed during the fiscal year.

**General Fund Budgetary Comparison Statement**

This section provides a comparison of actual expenditures for the fiscal period to the approved budget for the Santa Ana River Flood Protection Agency.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
 Management's Discussion And Analysis (Continued)  
 June 30, 2017 and 2016

**Notes to Financial Statements**

This section provides additional information that is necessary to acquire a full understanding of the data provided in the financial statements.

**FINANCIAL ANALYSIS**

**Statement of Net Position and General Fund Balance Sheet**

The Santa Ana River Flood Protection Agency's Statement of Net Position and General Fund Balance is presented below:

Statement of Net Position and General Fund Balance Sheet Comparison  
 June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>	<u>Change in Dollar</u>	<u>Change in Percentage</u>
<b>Assets</b>				
Cash in treasury	\$ 46,600	\$ 41,868	\$ 4,732	11.3%
Interest receivable	42	150	(108)	-72.0%
Total assets	<u>\$ 46,642</u>	<u>\$ 42,018</u>	<u>4,624</u>	11.0%
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	\$ 3,000	\$ 4,500	\$ (1,500)	-33.3%
Fund Balance:				
Unrestricted/Unassigned	43,642	37,518	6,124	16.3%
Total liabilities and fund balance	<u>\$ 46,642</u>	<u>\$ 42,018</u>	<u>\$ 4,624</u>	11.0%

The increase in cash in treasury of \$4,732 from 2016 was mainly resulted from the increase in membership revenues with expenses remained consistent. At June 30, 2017, total assets exceeded total liabilities by \$43,642 and the net position increased by \$6,124. Net position is expected to remain fairly constant as member contributions are adopted to cover expenses.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Management's Discussion And Analysis (Continued)  
June 30, 2017 and 2016

Statement of Net Position and General Fund Balance Sheet Comparison  
June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>	<u>Change in Dollar</u>	<u>Change in Percentage</u>
<b>Assets</b>				
Cash in treasury	\$ 41,868	\$ 41,638	\$ 230	0.6%
Interest receivable	150	17	133	782.4%
<b>Total assets</b>	<u>\$ 42,018</u>	<u>\$ 41,655</u>	<u>363</u>	0.9%
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	\$ 4,500	\$ 6,002	\$ (1,502)	-25.0%
Fund Balance:				
Unrestricted/Unassigned	<u>37,518</u>	<u>35,653</u>	<u>1,865</u>	5.2%
<b>Total liabilities and fund balance</b>	<u>\$ 42,018</u>	<u>\$ 41,655</u>	<u>\$ 363</u>	0.9%

The decrease in account payable of \$1,502 from fiscal year 2015 was due to 2015 accrued for extra month of director's pay. At June 30, 2016, total assets exceeded total liabilities by \$42,018 and the net position increased by \$1,865. Net position is expected to remain fairly constant as member contributions are adopted to cover expenses.

**Statement of Activities and General Fund Statement of Revenues, Expenditures and Changes in Fund Balance**

The schedules are presented below:

Statement of Activities and General Fund Statement of  
Revenues, Expenditures and Changes in Fund Balance Comparison  
Year Ended June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>	<u>Change in Dollar</u>	<u>Change in Percentage</u>
<b>Revenues and other support</b>				
Member contributions	\$ 28,600	\$ 24,200	\$ 4,400	18.2%
Interest income	466	435	31	7.1%
Miscellaneous income	-	67	(67)	-100.0%
<b>Total Revenues</b>	<u>29,066</u>	<u>24,702</u>	<u>4,364</u>	17.7%
<b>Expenses:</b>				
Program services	<u>22,942</u>	<u>22,837</u>	<u>105</u>	0.5%
<b>Change in fund balance</b>	6,124	1,865	4,259	228.4%
Unrestricted/Unassigned, beginning of year	<u>37,518</u>	<u>35,653</u>	<u>1,865</u>	5.2%
Unrestricted/Unassigned, end of year	<u>\$ 43,642</u>	<u>\$ 37,518</u>	<u>\$ 6,124</u>	16.3%

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Management's Discussion And Analysis (Continued)  
June 30, 2017 and 2016

Statement of Activities and General Fund Statement of  
Revenues, Expenditures and Changes in Fund Balance Comparison  
Year Ended June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>	<u>Change in Dollar</u>	<u>Change in Percentage</u>
<b>Revenues and other support</b>				
Member contributions	\$ 24,200	\$ 23,100	\$ 1,100	4.8%
Interest income	435	154	281	182.5%
Miscellaneous income	67	-	67	100.0%
<b>Total Revenues</b>	<u>24,702</u>	<u>23,254</u>	<u>1,448</u>	6.2%
<b>Expenses:</b>				
Program services	<u>22,837</u>	<u>18,353</u>	<u>4,484</u>	24.4%
<b>Change in fund balance</b>	1,865	4,901	(3,036)	-61.9%
Unrestricted/Unassigned, beginning of year	<u>35,653</u>	<u>31,739</u>	<u>3,914</u>	12.3%
Unrestricted/Unassigned, end of year	<u>\$ 37,518</u>	<u>\$ 36,640</u>	<u>\$ 878</u>	2.4%

For the years ended June 30, 2017 and 2016, the change in fund balance were \$6,124 and \$1,865, respectively. Member contributions are the main revenue source for the agency and are established concurrently with the adoption of the budget. In fiscal year 2017, the Agency increased \$200 in annual membership per member based on the Executive committee recommendation resulting in annual dues of \$1,300. In fiscal year 2017 and fiscal year 2016, the Agency contracted with a consultant for representation and related works in Washington D.C., which resulted in an increase in program services expense.

**General Fund Budget vs. Actual Comparison**

For the years ended June 30, 2017 and 2016, the overall revenue variance was resulted in a \$4,159 and \$2,547 increase over what was projected, respectively. The members' contributions of \$28,600 in fiscal year 2017 and \$24,700 in fiscal year 2016 are based on 22 members paying their annual contribution of \$1,300 and \$1,100. The \$8,608 and \$8,713 variance in expenses is mostly due to the \$5,000 travel budget going unused in fiscal year 2017 and 2016.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Santa Ana River Flood Protection Agency's finances. For questions or comments concerning any of the information provided in this report or requests for additional financial information should be addressed to Herb Nakasone, Executive Director at the Santa Ana River Flood Protection Agency at (714) 647-3938.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Statement of Net Position and General Fund Balance Sheet  
June 30, 2017 and June 30, 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash in treasury	\$ 46,600	\$ 41,868
Interest receivable	42	150
Total assets	\$ 46,642	\$ 42,018
<b>Liabilities and Fund Balance</b>		
Liabilities:		
Accounts payable	\$ 3,000	\$ 4,500
Fund Balance:		
Unrestricted/Unassigned	43,642	37,518
Total liabilities and fund balance	\$ 46,642	\$ 42,018

See accompanying notes to financial statements.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Statement of Activities and General Fund Statement of  
Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2017 and June 30, 2016

	<b>2017</b>	<b>2016</b>
<b>Revenues and other support</b>		
Member contributions	\$ 28,600	\$ 24,200
Interest income	466	435
Miscellaneous income	-	67
<b>Total Revenues</b>	29,066	24,702
<b>Expenses:</b>		
Program services	22,942	22,837
<b>Change in fund balance</b>	6,124	1,865
Unrestricted/Unassigned, beginning of year	37,518	35,653
Unrestricted/Unassigned, end of year	\$ 43,642	\$ 37,518

See accompanying notes to financial statements.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
 General Fund Budgetary Comparison Statement  
 For the Years Ended June 30, 2017 and June 30, 2016

	<b>2017 Original/Final Budget</b>	<b>2017 Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues and other support</b>			
Member contributions	\$ 24,700	\$ 28,600	\$ 3,900
Interest income	207	466	259
<b>Total Revenues</b>	<u>24,907</u>	<u>29,066</u>	<u>4,159</u>
<b>Expenses:</b>			
Program services	31,550	22,942	8,608
<b>Change in fund balance</b>	(6,643)	6,124	12,767
Fund balance - Unassigned, beginning of year	37,518	37,518	-
Fund balance - Unassigned, end of year	<u>\$ 30,875</u>	<u>\$ 43,642</u>	<u>12,767</u>

	<b>2016 Original/Final Budget</b>	<b>2016 Actual</b>	<b>Positive (Negative)</b>
<b>Revenues and other support</b>			
Member contributions	\$ 22,000	\$ 24,200	\$ 2,200
Interest income	155	435	280
Miscellaneous income	-	67	67
<b>Total Revenues</b>	<u>22,155</u>	<u>24,702</u>	<u>2,547</u>
<b>Expenses:</b>			
Program services	31,550	22,837	8,713
<b>Change in fund balance</b>	(9,395)	1,865	11,260
Fund balance - Unassigned, beginning of year	35,653	35,653	-
Fund balance - Unassigned, end of year	<u>\$ 26,258</u>	<u>\$ 37,518</u>	<u>\$ 11,260</u>

See accompanying notes to financial statements.

## **SANTA ANA RIVER FLOOD PROTECTION AGENCY**

Notes to Financial Statements

June 30, 2017 and 2016

### **NOTE 1 - ORGANIZATION OF THE AGENCY**

The Santa Ana River Flood Protection Agency (the Agency) was formed in accordance with Title 1, Division 7, and Chapter 5 of the California Government Code. The effective date of the agreement to establish the Agency was December 31, 1974. The agreement is between the County of Orange, the Orange County Flood Control District and those other public agencies within the County of Orange which subscribe to it.

The purpose of the Agency is to jointly exercise the flood protection powers common among the contracting parties. Specific emphasis is on disseminating information on the flood hazard potential of the Santa Ana River, seeking a position of unanimity among the citizens of Orange, Riverside and San Bernardino counties in support of the most feasible plan for the flood protection along the Santa Ana River, and seeking congressional authorization and appropriations for works of improvement.

The governing body of the Agency is a commission comprised of one representative from each party to the agreement. The Agency contracts an executive director who administers the program. In addition, the Agency contracts for the services of a lobbyist in Washington, D.C.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Basis of Accounting and Measurement Focus**

The Agency's government-wide financial statements include a Statement of Net Position and a Statement of Activities. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of timing of the related cash flows. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

General Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenue are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgements, are recorded only when payment is due.

For the years ended June 30, 2017 and 2016, there were no differences in the measurement focus and basis of accounting between the government-wide financial statements and the fund financial statements. Therefore, separate financial statements are not presented.

Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted fund balance to have been depleted before using any of the unrestricted components of fund balance.

## SANTA ANA RIVER FLOOD PROTECTION AGENCY

Notes to Financial Statements (Continued)

June 30, 2017 and June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **B. Cash in Treasury**

Cash in treasury represents Agency cash deposited in the County of Orange, California (County) Treasurer's Pool. Cash held in the County Treasurer's Pool is considered a demand deposit where funds may be withdrawn as needed and without penalty. The Agency does not own specifically identifiable securities in the County Treasurer's Pool. See the County's Comprehensive Annual Financial Report for the years ended June 30, 2017 and 2016, for additional disclosures on the composition and risks related to deposits and investments related to the County Treasurer's Pool.

#### **C. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Agency does not report any deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Agency does not report any deferred inflows.

#### **D. Net Position**

In the government-wide financial statements, net position are classified in the following categories:

*Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. The Agency had no investment in capital assets at June 30, 2017 and 2016, respectively.

*Restricted Net Position* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. The Agency had no restricted amounts at June 30, 2017 and 2016, respectively.

*Unrestricted Net Position* – This amount is all net position that does not meet the definition of “net invested in capital assets” or “restricted net position.”

## SANTA ANA RIVER FLOOD PROTECTION AGENCY

Notes to Financial Statements (Continued)

June 30, 2017 and June 30, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### E. Fund Balance

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

*Nonspendable* – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact. The Agency had no nonspendable amounts at June 30, 2017 and 2016, respectively.

*Restricted* – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation. The Agency had no restricted amounts at June 30, 2017 and 2016, respectively.

*Committed* – Committed fund balances encompass the portion of net fund resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. The Board of Commissioners considers a resolution to constitute a formal action of the Committee for the purposes of establishing committed fund balance. The Agency had no committed amounts at June 30, 2017 and 2016, respectively.

*Assigned* – Assigned fund balances encompass the portion of net fund resources reflecting the Agency's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Agency had no assigned amounts at June 30, 2017 and 2016, respectively.

*Unassigned* – This category is for any balances that have no restrictions placed upon them.

#### F. Revenues

Revenues primarily result from annual \$ 1,300 and \$ 1,100 member contributions by each member entity in fiscal years 2017 and 2016, respectively.

#### G. Expenses and Expenditures

Expenses and expenditures generally result from professional services provided through contracts with the Executive Director of the Agency and a lobbyist in Washington, D.C.

#### H. Stewardship, Compliance, And Accountability

The Board of Commissioners adopts an annual the budget. The annual budget is adopted by Resolution of the Board of Trustees. Revisions or transfers that alter the total appropriations must be approved by the Board of Commissioners. Supplemental appropriations may be adopted by the Board of Commissioners during the year. There were no supplemental appropriations approved during the year. A budget is adopted annually on a basis consistent with accounting principles generally accepted in the United States of America and is used as a management control device. The Agency maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is at the fund level.

Unexpended annual appropriations lapse at the end of the fiscal year; encumbered appropriations are re-budgeted in the next year.

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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***

Board of Commissioners  
The Santa Ana River Flood Protection Agency  
Santa Ana, 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 the General Fund of the Santa Ana River Flood Protection Agency (Agency), California, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated February 20, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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. 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 preceding paragraph 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. We did identify a deficiency in internal control, described in item 2016-01 in the accompanying schedule of findings and responses that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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*.

### **The Agency's Response to Findings**

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California  
February 20, 2018

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**

Schedule of Findings and Responses

June 30, 2017 and 2016

**2016-01 – Accruals**  
*(Material Weakness)*

*Criteria:* Accounting principles generally accepted in the United States of America require that expenses are reported in the period that they are incurred. Effective internal control procedures include procedures to capture expenses in the proper period to ensure the accuracy of financial reporting.

*Condition:* During the audit, it was noted that one transaction for \$1,500 related to expenses/expenditures incurred fiscal year 2016 was not accrued by the Agency. This resulted in an understatement of account payable and expenses/expenditures. The error was corrected in the 2016 financial statements.

*Cause:* The Agency's internal control over financial reporting did not identify the misstatement in a timely manner due to an inadequate policy, which only required individual item over \$5,000 to be accrued in a given fiscal year.

*Effect:* The financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

*Recommendation:* We continued to recommend the Agency review and revise its internal control procedures and adjust the threshold appropriately to further ensure that disbursements made subsequent to the end of the fiscal year are reviewed and properly evaluated to determine whether or not the transaction should be accrued in the previous fiscal year.

*Management Corrective Action Plan:* Orange County Public Works Accounting, the accountants for the Santa Ana River Flood Protection Agency, will fully implement a procedure to accrue all outstanding payments at year-end to ensure the financial statements are fairly stated.

**SANTA ANA RIVER FLOOD PROTECTION AGENCY**  
Schedule of Prior Year Findings and Responses  
June 30, 2017 and 2016

**2015-01 – Accruals**  
*(Material Weakness)*

*Finding:* During the 2014-15 audit, it was noted that 4 transactions related to expenses/expenditures incurred fiscal year 2014-15, totaling \$6,000, were not accrued by the Agency. This resulted in an understatement of account payable and expenses/expenditures. Furthermore, we noted 1 transaction related to expenses/expenditures incurred in fiscal year 2013-14, totaling \$1,500, which was recorded in July 2014. This resulted in an overstatement of expense/expenditures in fiscal year 2014-15 and an overstatement of beginning net position/fund balance.

*Recommendation:* We recommend the Agency review and revise its internal control procedures and adjust the threshold appropriately to further ensure that disbursements made subsequent to the end of the fiscal year are reviewed and properly evaluated to determine whether or not the transaction should be accrued in the previous fiscal year.

*Status of Corrective Action Plan:* The Agency partially implemented a procedure to accrue all outstanding payments at year-end. See current year finding 2016-01