

**THREE RIVERS LEVEE
IMPROVEMENT AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2006

MICHAEL L. HINZ, CPA, INC
CERTIFIED PUBLIC ACCOUNTANT

476 Century Park Drive, Ste. A
Yuba City, CA 95991

TEL: (530) 673-9500
FAX: (530) 673-2535

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California**

I have audited the accompanying Statement of Financial Position of Three Rivers Levee Improvement Authority as of June 30, 2006 and the related Statement of Activities and Changes in Net Assets and Combined Statement of Cash Flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and government auditing standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Three Rivers Levee Improvement Authority as of June 30, 2006 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Michael L. Hinz

July 28, 2007

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:

Cash in County Treasury	8,971,524
Accounts Receivable – FEMA	2,868,865
Interest Receivable	<u>61,921</u>
Total Current Assets	11,902,310

Fixed Assets:

Land – Right of Way	<u>4,567,250</u>
Total Assets	<u>16,469,560</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	314,582
Reimbursements Due to YCWA	<u>632,633</u>
Total Current Liabilities	<u>947,215</u>

Net Assets

Unrestricted	<u>15,522,345</u>
Total Liabilities and Net Assets	<u>16,469,560</u>

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2006

Revenue:

Landowner Funding Assessments	37,363,988
Proposition 13 Funds	18,415,950
Grant Income – FEMA	2,797,159
Interest	159,594
Other Revenue	<u>2,366,095</u>
Total Revenue	<u>61,102,786</u>

Expenditures:

Phase I – Levee Improvements	15,787
Phase II – Engineering and Design	2,257,671
Phase II – Levee Improvements	10,030,367
Phase II – Right of Way	2,275,233
Phase III – Design and Engineering	4,210,824
Phase III – Levee Improvements	8,084,035
Phase III – Right of Way	7,838,891
Phase III – Environmental Mitigation	11,940,150
Phase IV – Pre-Contract	1,036,634
Olivehurst Detention Basin	2,812,674
Environmental Mitigation	69,882
Administrative Costs	<u>1,437,625</u>
Total Expenditures	<u>52,009,773</u>

Excess of Revenue over Expenditures 9,093,013

Net Assets – Beginning of Year 6,429,332

Net Assets – End of Year 15,522,345

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENT OF CASH FLOWS
JUNE 30, 2006

Cash Flows From Operating Activities:

Cash Received from Landowners	37,363,988
Cash Received – Grants, etc.	20,782,045
Cash Disbursed for Operating Activities	<u>(51,777,281)</u>

Net Cash Flows Provided by Operation Activities: 6,368,752

Cash Flows From Investing Activities:

Real Property Purchases	(4,567,250)
Interest Income	<u>142,470</u>

Net Cash Flows Provided by Investing Activities (4,424,780)

Net Increase in Cash 1,943,972

Cash at Beginning of Year 7,027,552

Cash at End of Year 8,971,524

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

History and Organization

The Three Rivers Levee Improvement Authority (TRLIA) was formed in April 2004 as a Joint Powers Authority (JPA) between Yuba County and Reclamation District No. 784. Section 2.01 from the JPA agreement describes TRLIA's purpose.

This Agreement is made pursuant to the Act providing for the joint exercise of powers common to the County and the District, and for other purposes as permitted under the Act, the Bond Law and as agreed by the parties hereto. The primary purpose of this Agreement is to provide for flood control improvements located in the County, including improvements to the levee system and related drainage improvements. The Authority may undertake any activities necessary or desirable to achieve its primary purpose including, but not limited to (a) the power to study, plan for, design, develop, acquire, and construct and repair improvements, (b) the acquisition and holding of title to land, including the acquisition of land by eminent domain proceedings, as necessary for levee system improvements, related drainage improvements and/or habitat mitigation incident to any such improvements, and (c) the provision of financing for improvements and related activities, including financing by means of the creation of one or more community facilities districts, assessment districts or other financing districts, the entering into of lease and/or installment sale obligations, the issuance of revenue or other notes, bonds or evidences of indebtedness, and the imposition of appropriate impact or other fee obligations. The Authority may conduct activities alone, or in cooperation with any Member, any Associate Member, the State of California or any agency or political subdivision thereof, the United States or any department or agency thereof, or other entities. It is not contemplated that the Authority will in any way contract for or finance periodic levee maintenance activities which the District, other reclamation districts or other governmental or nongovernmental entities are obligated to do, or which otherwise in the past have been done by them.

Four work phases have been identified with the goal of achieving 200-year flood protection. The first construction work was initiated September 2004 and final phase is scheduled to complete by the end of 2008. The cost to complete the four phases is estimated to be \$360 million and will be funded mostly by local development fees and State funding.

Significant Accounting Policies

Fund Accounting

The Organization operates as an Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed primarily through landowner charges.

Basis of Accounting

The Organization uses the accrual basis of accounting for financial reporting purposes. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process.

Property and Equipment

The Organization was formed to perform repairs and improvements to property owned and maintained by the County of Yuba and Reclamation District No. 784. In addition, the organization has purchased land as a right of way to enable the improvements to the existing levee system. Right of way purchases as of June 30, 2006 were \$4,567,250.

Cash and Reserves

Funds of the Organization are on deposit with the Yuba County Treasurer. These funds consist of a diversified portfolio pool and do not require a category of risk in accordance with GASB #3. The risk of material loss with regard to these funds is not considered to be material.

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CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

**The Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California**

I have audited the general purpose financial statements of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2006, and have issued my report thereon dated July 28, 2007.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements.

The management of Three Rivers Levee Improvement Authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the general purpose financial statements of Three Rivers Levee Improvement Authority for the year ended June 30, 2006, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of the management and granting agencies. However, this report is a matter of public record and its distribution is not limited.

Michael C. De...

July 28, 2007

MICHAEL L. HINZ, CPA, INC
CERTIFIED PUBLIC ACCOUNTANT

476 Century Park Drive, Ste. A
Yuba City, CA 95991

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California

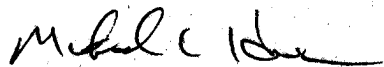
I have audited the general purpose financial statements of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2006, and have issued my report thereon dated July 28, 2007.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Three Rivers Levee Improvement Authority is the responsibility of Three Rivers Levee Improvement Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Three Rivers Levee Improvement Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the management and granting agencies. However, this report is a matter of public record and its distribution is not limited.



July 28, 2007