

**THREE RIVERS LEVEE
IMPROVEMENT AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2012

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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, 2012 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, 2012 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

December 28, 2012

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

	<u>General Fund</u>	<u>Levee Assessment Fund</u>
Current Assets:		
Cash in County Treasury (Note)	7,091,050	35,258
Accounts Receivable	2,676,834	
Interest Receivable	<u>21,151</u>	<u>2,365</u>
Total Current Assets	<u>9,789,035</u>	<u>37,623</u>
Other Assets:		
Deposit – Condemnation Fund	<u>41,641</u>	
Total Other Assets	<u>41,641</u>	
Total Assets	<u>9,830,676</u>	<u>37,623</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	<u>511,257</u>	
Total Current Liabilities	<u>511,257</u>	
Net Assets		
Unrestricted	<u>9,319,419</u>	<u>37,623</u>
Total Liabilities and Net Assets	<u>9,830,676</u>	<u>37,623</u>

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2012

	<u>General Fund</u>	<u>Levee Assessment</u>
Revenue:		
Proposition 1E Funding	5,604,501	
Property Assessment		837,710
Interest	122,133	3,756
Landowner Funding	2,289,353	
Other Income (Note)	<u>2,109,418</u>	
Total Revenue	<u>10,125,405</u>	<u>841,466</u>
Expenditures:		
Special Projects		
Levee Improvement Costs (Schedule)	13,487,570	
Maintenance Reimbursement		839,081
Administrative Expenses:		
Yuba County Reimbursements		
Salaries and Benefits	231,554	
Interdepartment Costs	181,524	
Utilities	18,417	
Insurance	303,086	
Directors Fees	4,650	
Rent	32,606	
Office and Miscellaneous	15,010	
Travel	10,496	
Memberships	<u>10,255</u>	
Total Expenditures	<u>14,295,168</u>	<u>839,081</u>
Excess of Revenues over Expenditures	(4,169,763)	2,385
Net Assets – Beginning of Year	<u>13,489,182</u>	<u>35,238</u>
Net Assets – End of Year	<u>9,319,419</u>	<u>37,623</u>

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
STATEMENT OF CASH FLOWS
JUNE 30, 2012

Cash Flows From Operating Activities:

Cash Received from Operating Activities	10,000,102
Cash Disbursed for Operating Activities	<u>(15,637,255)</u>

Net Cash Flows Used in Operation Activities: (5,637,153)

Cash Flows From Investing Activities:

Interest Income	148,080
Condemnation Fund Receipts (Net)	<u>210,917</u>

Net Cash Flows From Investing Activities 358,997

Cash Flows From Financing Activities -0-

Net Decrease in Cash (5,278,156)

Cash at Beginning of Year 12,369,206

Cash at End of Year 7,091,050

See accompanying notes to financial statements

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
SCHEDULE OF LEVEE IMPROVEMENT COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Phase 2		175,116
Phase 3		8,868
Phase 4 – Yuba:		
Design	190,882	
Permit	113,025	
Environmental Mitigation	115,900	
Construction	6,105,389	
Construction Management	1,970,930	
Right of Way	<u>1,249,608</u>	
		9,745,734
Phase 4 - Yuba - Element 1A		114,298
Phase 4 – Feather:		
Segment 1:		
Design	1,590	
Right of Way Support	46,187	
Segment 2:		
Design	83,225	
Construction	883	
Construction Management	62,562	
Right of Way Support	903,612	
Right of Way – Direct Purchase (Note)	262,092	
Segment 3:		
Design	3,949	
Construction Management	10,042	
Right of Way Support	<u>324,653</u>	
		1,698,795
Goldfields - Phase 1:		
Design	54,442	
Construction	739,543	
Construction Management	<u>14,603</u>	
		808,588
Goldfields Technical Analysis		199,735
Environmental Mitigation Costs		691,881
Interim Operating Costs		<u>44,555</u>
Total		<u>13,487,570</u>

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>
Cash in Treasury	1,394,906	306,728
Total Assets	<u>1,394,906</u>	<u>306,728</u>

LIABILITIES AND NET ASSETS

Liabilities	-0-	-0-
Net Assets	<u>1,394,906</u>	<u>306,728</u>
Total Liabilities and Net Assets	<u>1,394,906</u>	<u>306,728</u>

See accompanying notes to financial statements

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUNDS
STATEMENT OF ACTIVITIES
JUNE 30, 2012**

	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>
Revenue:		
Current Secured Taxes	409,244	86,022
Prior Taxes	<u>3,564</u>	<u>-0-</u>
Total Taxes	412,808	86,022
Interest	<u>14,076</u>	<u>3,162</u>
Total Revenue	426,884	89,184
 Expenditures	 <u>-0-</u>	 <u>-0-</u>
Excess Revenues over Expenditures	426,884	89,184
Beginning Net Assets	<u>968,022</u>	<u>217,544</u>
Ending Net Assets	<u>1,394,906</u>	<u>306,728</u>

See accompanying notes to financial statements

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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. The final phase was scheduled to be completed by the end of 2011 with the completion of the Upper Yuba Levee Improvement Project with a cost estimated to be \$405 million for 29 miles of levees and funded mostly by local sources and State funding. Additional Phase 4 work has been identified in the Goldfields area that is anticipated to last for at least several more years. The cost estimate for the Goldfields work is still being developed.

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.

Construction work for the improvement of the levee system within the Organizations boundaries in Yuba County is reflected on its books as an operating expense. The Organization, as originally formed, will cease to exist upon the completion of the projects for which it was formed. At that time ownership of any property and the completed improvements to the levee system will be transferred to the existing owner, primarily the State of California, and maintenance responsibility will be assumed by Reclamation District No. 784 and/or other entities established to perform this function. The value to be transferred will be the fair market value of levee improvements. The total costs of the levee improvements to date are as follows:

Fiscal Year Ended	
June 30, 2004	701,774
June 30, 2005	5,603,384
June 30, 2006	50,572,148
June 30, 2007	74,257,632
June 30, 2008	24,376,482
June 30, 2009	82,916,631
June 30, 2010	54,496,111
June 30, 2011	14,111,717
June 30, 2012	<u>13,487,570</u>
	<u>320,523,449</u>

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.

Use of Estimates

The preparation of the general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the general purpose financial statements and the reported amount of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Deposit - State Condemnation Fund

Deposits with the State Condemnation Fund represent funds contributed for the purchase of property for the right of way for levee improvements, for which the District and the sellers have not reached an agreed upon sales price. The total contribution to the fund represents a 17.175% allocation from Three Rivers Levee Improvement Authority and an 82.825% allocation from the State of California Department of Water Resources. Upon the determination of the actual property fair value additional contributions will be made or any refunds will be received in the same proportion. During this process, the District receives interest on these funds. The total interest for the current year was \$2,248. At the conclusion of the improvement process, the real property acquired for right-of-way purposes will become the property of the State of California. The funds provided directly by the State of California are not included in the property acquisition costs due to the fact that they were not paid through District accounts.

Other Income

A detail of Other Income for the year ended June 30, 2012 is as follows:

Condemnation Fund Interest	2,248
Refunds	68,273
Miscellaneous	96,268
Pump Station Funding	<u>1,942,629</u>
	<u>2,109,418</u>

Cash in County Treasury

Cash in County Treasury as of June 30, 2012 consisted of the following accounts with the Yuba County Treasurer:

General Account	6,750,062
SMARA Reclamation Assurance Reserve	233,325
Feather River Funding	103,008
Upper Yuba River Funding	<u>4,655</u>
	<u>7,091,050</u>

Community Facilities Districts - Special Revenue Funds

"Special Taxes collected from TRLIA Communities Facilities Districts 2006-1 & 2006-2 are utilized pursuant to the adopted Three Rivers Levee Impact Fee Advance Funding Credit & Reimbursement Policies and Procedures memorialized within development agreements covering properties within the aforementioned CFD's. The first use of Special Taxes is to satisfy any remaining Three Rivers Levee Impact Fee obligations of the development from which the special taxes are collected. Once all fee obligations are satisfied, special taxes are then utilized to redeem outstanding bonds issued as obligations of the districts. The Net assets of the CFD Revenue Funds are consequently reserved for those purposes.

Community Facilities Districts - Capital Improvement Bonds

Three Rivers Levee Improvement Authority issued Capital Improvement Bonds on April 18, 2007 to finance the repayment of proceeds received in accordance with the advance funding agreements with local developers. These are special tax bonds and are issued on specific parcels of landowners within the Community Facilities Districts. These bonds will be repaid by annual special taxes on the parcels within the Districts. These bonds are not an obligation of Three Rivers Levee Improvement Authority for the respective Three Rivers Levee Improvement Community Facilities District, and are payable solely from the proceeds of refundable bonds or special taxes, therefore, they are not reflected as a liability. A summary of the bonds is as follows:

Name of Bond Issue	Community Facilities District of 2006-1 Special Tax 2007 Series A	Community Facilities District of 2006-2 Special Tax 2007 Series B
Date of Issue	4-18-2007	4-18-2007
Original Issue Value	14,930,382	8,663,901
Accreted Value – 6/30/12	20,380,255	11,826,390
District Assessed Value	98,892,035	29,231,282

Local Funding – Yuba Levee Financing Authority

The Yuba Levee Financing Authority has authorized the matching funds for the Levee Improvement Program as follows:

Authorizations:

October 2008	13,080,000
November 2008	7,376,000
May 2010	14,200,000
January 2010	7,000,000
November 2010 Adjustment	<u>(2,079,469)</u>
 Total Authorized	 39,576,531
 Amount Funded to June 30, 2010	 <u>39,576,531</u>
 Authorization Remaining	 <u>-0-</u>

Levee Assessment Fund

The Levee Assessment Fund was established to collect to collect funds for the purpose providing for levee maintenance within the operating and maintenance assessment district. Collection from direct property assessment and used to fund two district activities. The first \$16,000 of revenue are used reimburse Three Rivers Levee Improvement Authority for administrative costs. All remaining revenue is transferred to Reclamation District 784 to reimburse the costs of levee maintenance activities. The annual assessments are determined based upon a projected budget for levee maintenance as determined by Reclamation District 784, subject to the maximum allowable levee based upon the Engineer's Report and the Proposition 218 process used to approve and form the district.

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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, 2012, and have issued my report thereon dated December 28, 2012.

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, 2012, 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.



December 28, 2012

MICHAEL L. HINZ, CPA, INC
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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, 2012, and have issued my report thereon dated December 28, 2012.

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.

Michael L. Hinz

December 28, 2012