

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2017



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California

We have audited the accompanying financial statements of the governmental activities and each major fund of Three Rivers Levee Improvement Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Three Rivers Levee Improvement Authority'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 the 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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. 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 includes 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 Authority'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 Authority'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 respective financial position of the governmental activities and each major fund of the Three Rivers Levee Improvement Authority as of June 30, 2017, and the respective changes in financial position for the year then ended in conformity 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 and the budgetary comparison for the General fund, 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 (GASB), 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 March 23, 2018, on our consideration of the Three Rivers Levee Improvement Authority'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 Three Rivers Levee Improvement Authority'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 Three Rivers Levee Improvement Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
March 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

This Management's Discussion and Analysis of the Three Rivers Levee Improvement Authority's (Authority) basic financial statements presents a discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded its liabilities at the close of the 2016-2017 fiscal year by \$46.5 million. Of this amount, \$2.8 million is restricted for capital projects, debt service, and other public uses (restricted net position), and \$33.9 million is invested in capital assets, net of related debt.

As of June 30, 2017, the Authority's governmental funds reported combined fund balances of \$10.6 million as restricted fund balance.

At the end of the fiscal year, unrestricted net position for governmental activities was \$9.8 million, a decrease of approximately \$7 million from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of Authority finances, in a manner similar to private-sector business.

The statement of net position presents information on all Authority assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator in determining if the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but uncollected revenues and earned but unused vacation leave). Both of these government-wide financial statements distinguish functions of the Authority that are principally supported by assessments, taxes and intergovernmental revenues (governmental activities).

Fund Financial Statements are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance.

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on current in-flows and outflows of spendable resources as well as the balances of available resources at the end of the fiscal year. Such information may be useful in evaluating the Authority's short-term financial position and the financial resources available in the near future to support the Authority's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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.

Required Supplementary Information regarding the Authority's budgetary process has been provided along with budgetary comparison schedules for the Authority's general fund and for each of the major governmental special revenue funds.

**Table 1
The Authority's Net Position**

	2017	2016
Assets		
Current and Other Assets	\$ 15,510,339	\$ 19,758,881
Capital Assets	80,168,280	80,601,526
Total Assets	95,678,619	100,360,407
 Liabilities		
Current/Noncurrent Liabilities	2,857,685	22,833
Long-term Liabilities	46,264,753	43,956,324
Total Liabilities	49,122,438	43,979,157
 Net Position		
Net Investment in Capital Assets	33,903,527	36,645,202
Restricted Net Position	2,798,330	2,797,961
Unrestricted Net Position	9,854,324	16,938,087
Total Net Position	\$ 46,556,181	\$ 56,381,250

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

ANALYSIS OF NET POSITION

As noted earlier, net position may serve as a useful indicator of government's financial position. In the case of the Authority, assets exceeded liabilities by \$46.5 million at the close of the fiscal year ending June 30, 2017. The decrease in net position of approximately \$9.8 million can be primarily attributed to the decrease in Current Assets (\$4.39 million) as a result of a reduction in cash, an increase in Total Liabilities due to the amount of payables due to contractors at June 30, 2017 (\$2.83 million) and additional capitalized appreciation of the on the outstanding Mello-Roos CFD Bonds (\$2.3 million).

Restricted Net Position, the use of which is restricted by entities external to the Authority (i.e. external creditors, other governmental agencies, or by law through constitutional powers or enabling legislation) comprise \$2.8 million for the current fiscal year.

Net investment in capital assets decreased by \$2.7 million from 2016 to 2017 due to the retirement and transfer of completed flood control works to Reclamation District No. 784.

The following table indicates the changes in net position for governmental and business-type activities:

**Table 2
The Authority's Net Position**

	2017	2016
Program Revenues:		
Intergovernmental Revenue	\$ 136,027	\$ 13,855,653
Property Assessments and Fees	1,038,325	971,387
CFD Direct Assessments	685,786	602,219
Rental Income	61,000	115,456
General Revenue:		
Investment Income	149,034	21,683
Miscellaneous	86,946	180,628
Total Revenue	2,157,118	15,747,026
Expenses:		
Levee Improvement Activities	(11,982,187)	(9,798,817)
Changes in Net Position	(9,825,069)	5,948,209
Net Position - Beginning of Year	56,381,250	50,433,041
Net Position - End of Year	\$ 46,556,181	\$ 56,381,250

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Overall, activities in the current year decreased the Authority's net position by \$9.8 million. The Authority saw an overall decrease of \$13.6 million in revenues from \$15.7 million in 2016 to \$2.1 million in 2017. The Authority saw a minor increase in property assessments and fees and direct assessments revenue. The decrease in revenue was accompanied by an increase of \$2.2 million in expenditures, from \$9.8 million to \$11.9 million, or 22%. This was in large part due to an increase in the amount of levee improvements completed relative to the prior fiscal year.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds: Governmental activities are generally accounted for under the General Fund and special revenue. The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances as spendable resources. Such information is useful in assessing the Authority's short-term financing requirements, in particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of June 30, 2017, the Authority's governmental funds reported a combined ending fund balance of \$10.6 million, compared to \$10.8 million of the previous year, a decrease of 2.0%. The \$10.6 million in fund balance is classified under GASB 54 as restricted, due to grant and other regulatory provisions.

GENERAL FUND BUDGETARY HIGHLIGHTS

**Table 3
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Budgetary fund balances, Beginning	\$ 10,063,363	10,063,363	\$ 10,063,363	\$ --
Resources (inflows)	18,034,073	18,034,073	7,269,260	(10,764,813)
Total charges to appropriations	<u>(18,137,447)</u>	<u>(18,137,447)</u>	<u>(7,539,136)</u>	<u>10,598,311</u>
Budgetary fund balances, June 30	<u>\$ 9,959,989</u>	<u>\$ 9,959,989</u>	<u>\$ 9,793,487</u>	<u>\$ (166,502)</u>

Actual inflows for 2017 were lower than the final budgeted revenue by \$10.7 million due lower than expected intergovernmental revenues (grant revenues from the Department of Water Resources). The Authority also had actual expenditures less than budgeted by approximately the same amount, \$10.6 million.

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Assets: The Authority's investment in capital assets for its governmental type activities as of June 30, 2017, amounted to \$80.1 million (net of accumulated depreciation) compared to \$80.6 million reported in 2016. This investment in capital assets includes levee improvement project costs. Additional information on the Authority's capital assets can be found in Note 3 of the Notes to Basic Financial Statements.

Debt Administration: At the end of the current fiscal year, the Authority had total long-term obligations outstanding of \$46 million. The long-term obligations are as follows:

- \$46.3 million – bonds payable

Additional information on the Authority's long-term debt obligations can be found in Note 4 of the Notes to the Basic Financial Statements.

ECONOMIC OUTLOOK

The adopted expenditure budget for fiscal year 2017/18 for the Authority's general fund totals approximately \$17.5 million which is a \$600,600 decrease, or 3.3% decrease when compared to the prior year.

During the fiscal year of 2017/18, the Authority expects to complete the Western Pacific Interceptor Canal levee improvement project as well as complete a significant portion of the planning and engineering associated with the 200-Year Goldfields Levee Improvement Project.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Three Rivers Levee Improvement Authority, 1114 Yuba Street, Suite 218, Marysville, California 95901.

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Statement of Net Position
June 30, 2017

Assets

Cash and investments in County Treasury	\$ 10,618,419
Cash with fiscal agent	2,798,330
Accounts receivable	61,000
Due from other government agencies	1,991,626
Taxes receivable	3,654
Interest receivable	37,310
Capital assets:	
Non-depreciable	<u>80,168,280</u>

Total Assets

95,678,619

Liabilities

Accounts payable	2,857,685
Long-term liabilities:	
Bonds payable, noncurrent portion	<u>46,264,753</u>

Total Liabilities

49,122,438

Net Position

Net investment in capital assets	33,903,527
Restricted for restoration area endowment	2,798,330
Unrestricted	<u>9,854,324</u>

Total Net Position

\$ 46,556,181

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Statement of Activities
For the Fiscal Year Ended June 30, 2017

Expenses

Administrative Expenses:	
Salaries and employee benefits	\$ 262,654
Insurance	282,108
Memberships	19,740
Professional services	173,467
Travel	8,546
Special Projects:	
Levee improvement costs	7,225,867
Maintenance reimbursements	969,858
Developer impact fee payments	481,563
Fiduciary fees	46,037
Interest expense	2,512,347
Total Program Expenses	<u>11,982,187</u>

Program Revenues

Intergovernmental revenue	136,027
Property assessments	1,038,325
CFD special taxes	685,786
Rental income	61,000
Total Program Revenues	<u>1,921,138</u>

Net Program Expense (10,061,049)

General Revenues

Investment earnings	149,034
Other revenue	86,946
Total General Revenues	<u>235,980</u>

Change in Net Position (9,825,069)

Net Position - Beginning of Year 56,381,250

Net Position - End of Year \$ 46,556,181

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>	<u>Levee Assessment</u>	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>	<u>Total</u>
Assets					
Cash and investments in County Treasury	\$ 9,793,913	\$ 262,318	\$ 361,859	\$ 200,329	\$ 10,618,419
Cash with fiscal agent	2,798,330	--	--	--	2,798,330
Accounts receivable	61,000	--	--	--	61,000
Due from other government agencies	1,991,626	--	--	--	1,991,626
Taxes receivable	--	3,654	--	--	3,654
Interest receivable	32,717	3,200	859	534	37,310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 14,677,586</u>	<u>\$ 269,172</u>	<u>\$ 362,718</u>	<u>\$ 200,863</u>	<u>\$ 15,510,339</u>
Liabilities					
Accounts payable	\$ 2,857,685	\$ --	\$ --	\$ --	\$ 2,857,685
Unavailable revenue	2,026,414	--	--	--	2,026,414
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>4,884,099</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,884,099</u>
Fund Balances					
Restricted	9,793,487	269,172	362,718	200,863	10,626,240
Total Fund Balances	<u>9,793,487</u>	<u>269,172</u>	<u>362,718</u>	<u>200,863</u>	<u>10,626,240</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 14,677,586</u>	<u>\$ 269,172</u>	<u>\$ 362,718</u>	<u>\$ 200,863</u>	<u>\$ 15,510,339</u>

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Reconciliation of the Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2017

Fund Balance - total governmental funds	\$ 10,626,240
Amounts reported for governmental activities in the statement of net position are different because:	
Receivables not collected during the availability period are deferred in the fund statements.	2,026,414
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	80,168,280
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds.	
Bonds payable	<u>(46,264,753)</u>
Net position of governmental activities	<u>\$ 46,556,181</u>

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	<u>General</u>	<u>Levee Assessment</u>	<u>CFD 2006-1</u>	<u>CFD 2006-2</u>	<u>Total</u>
Revenues					
Intergovernmental revenue	\$ 7,042,563	\$ --	\$ --	\$ --	\$ 7,042,563
Property assessments	--	1,038,325	--	--	1,038,325
CFD special taxes	--	--	508,249	177,537	685,786
Use of money and property	139,751	5,782	2,319	1,182	149,034
Other revenue	86,946	--	--	--	86,946
Total Revenues	<u>7,269,260</u>	<u>1,044,107</u>	<u>510,568</u>	<u>178,719</u>	<u>9,002,654</u>
Expenditures					
Current:					
Administrative:					
Salaries and benefits	262,654	--	--	--	262,654
Insurance	282,108	--	--	--	282,108
Memberships	19,740	--	--	--	19,740
Professional services	173,467	--	--	--	173,467
Travel	8,546	--	--	--	8,546
Special projects:					
Levee improvement costs	6,792,621	--	--	--	6,792,621
Maintenance reimbursements	--	969,858	--	--	969,858
Development impact fee payments	--	--	395,957	85,606	481,563
Fiduciary fees	--	--	32,288	13,749	46,037
Redemption of CFD bonds	--	--	203,918	--	203,918
Total Expenditures	<u>7,539,136</u>	<u>969,858</u>	<u>632,163</u>	<u>99,355</u>	<u>9,240,512</u>
Net change in fund balances	(269,876)	74,249	(121,595)	79,364	(237,858)
Fund Balance - Beginning of Year	<u>10,063,363</u>	<u>194,923</u>	<u>484,313</u>	<u>121,499</u>	<u>10,864,098</u>
Fund Balance - End of Year	<u>\$ 9,793,487</u>	<u>\$ 269,172</u>	<u>\$ 362,718</u>	<u>\$ 200,863</u>	<u>\$ 10,626,240</u>

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the
Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net change to fund balance - total governmental funds	\$ (237,858)
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(6,845,536)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. Retirements are reported as expenses.	
Capital asset expenditures	6,337,880
Retirement of capital assets	(6,771,126)
The repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	203,918
The compounding of interest on the capital appreciation bonds does not require the use of current financial resources and therefor, are not reported as expenditures in governmental funds.	<u>(2,512,347)</u>
Change in net position of governmental activities	<u>\$ (9,825,069)</u>

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The Three Rivers Levee Improvement Authority (Authority) is a joint powers authority established in May 2004 between the County of Yuba and Reclamation District No. 784 to finance and construct levee improvements in south Yuba County. The Authority's mission is to provide 200-year flood protection from 29 miles of levees to more than 40,000 residents. The Authority is governed by a five-member Board of Directors.

Component Units

The Authority Board of Directors approved the formation of two Community Facilities Districts (CFDs) on April 3, 2007. The property owners within the proposed boundaries of the CFDs who qualified as the electors for the purposes of authorizing the CFDs unanimously voted to form the CFDs and to incur bonded indebtedness in an amount not to exceed \$250,000,000 for CFD 2006-1. The CFD 2006-1 bond proceeds would be used to fund the costs of the Levee Improvement Program funded through an advanced funding agreement entered into by certain landowners, Yuba County (County), and the TRLIA. The CFD 2006-2 proceeds would be used to fund the costs of the Levee Improvement Program previously advanced by certain landowners through prior agreements, as well as other improvements included in County capital facilities impact fees.

B. Basis of Presentation

The accounts of the Authority are organized and operated on the basis of funds, each of which is defined as a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenue, and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Authority.

The Government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all the Authority's assets and liabilities, including capital assets and long-term debt, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. In the Statement of Activities, interfund transfers have been eliminated.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Fund Financial Statements

Governmental fund financial statements include a balance sheet, and a statement of revenues, expenditures, and changes in fund balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the difference in fund balances as presented in these statements to the net position presented in the government-wide financial statements.

The Authority reports the following major governmental funds:

- The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government.
- The Levee Assessment Fund was established to collect funds for the purpose of providing levee maintenance within the operating and maintenance assessment district.

The Special Revenue Funds also include the non-major funds representing the activities of the two CFD funds.

C. Basis of Accounting

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements and donations. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds 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. The Authority considers revenues reported in the governmental fund to be available if they are collected within forty five days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

D. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include intergovernmental revenue. Receivables recorded in the financial statements are not net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2016 were not considered material and, therefore, were not recorded.

In the governmental fund financial statements, material receivables in governmental funds include revenue accruals such as grants, interest and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

accrual method of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within sixty days since they would be considered both measurable and available.

E. Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date received. Capital assets include public domain and general fixed assets consisting of certain improvements including flood control. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the estimated useful lives in the government-wide statements.

The estimated lives are as follows:

Infrastructure	20 - 60 years
Structures and Improvements	15 - 60 years
Equipment, Furniture and Vehicles	3 - 20 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

F. Equity

GOVERNMENT-WIDE STATEMENTS

In the government-wide financial statements, equity is classified as net position and displayed in three components as follows:

- Net investment in capital assets –the portion of net position, which is represented by the current net book value of the Authority’s capital assets, less the outstanding balance of any debt issued to finance these assets.
- Restricted net position – a component of net position whose use is subject to constraints that are either (a) externally imposed by creditors, grantors contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – this portion of net position does not meet the definition of “net investment in capital assets” or “restricted net position” as defined above.

FUND STATEMENTS

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

- Restricted fund balance – amounts with constraints placed on their use by those external to the Authority, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Authority’s highest level of decision-making authority (the Authority’s Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making or by a body or an official designed for that purpose.
- Unassigned fund balance – the residual classification that includes amounts not contained in the other classifications.

The Authority’s governing board establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, followed by unrestricted committed, assigned and unassigned resources as they are needed.

G. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH

Cash at June 30, 2017, consisted of the following:

Cash with Yuba County Treasury	\$ 10,618,419
Cash with fiscal agent	<u>2,798,330</u>
	<u>\$ 13,416,749</u>

The Authority is a voluntary participant in the County of Yuba Treasury’s investment pool. The County maintains a cash and investment pool in order to facilitate the management of cash. Each fund’s portion of this pool is displayed on the balance sheet as “cash and investments.” On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balance. Information regarding categorization of investments, risk and fair value reporting disclosures can be found in the County of Yuba financial statements.

Governmental Accounting Standards Board Statement No. 40 requires additional disclosures about a government’s deposits and investment risks that include credit risk, custodial risk, concentration risk and interest rate risk.

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Required risk disclosures for the Authority's investment in the Yuba County Investment Pool at June 30, 2017, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost.

The California Government Code requires California banks and savings and loan associations to secure the Authority's cash deposits by pledging securities as collateral. This code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus collateral for cash deposits is considered to be held in the Authority's name. The market value of pledge governmental securities must equal at least 110% of the Authority's cash deposits. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits.

NOTE 3: CAPITAL ASSETS

For the fiscal year ended June 30, 2017, the change in capital assets was as follows:

	Balance July 01, 2016	Additions	Retirements	Balance June 30, 2017
Nondepreciable:				
Land	\$ 29,755,674	\$ 194,045	\$ -	\$ 29,949,719
Construction in progress	50,845,852	6,143,835	6,771,126	50,218,561
 Total	 <u>\$ 80,601,526</u>	 <u>\$ 6,337,880</u>	 <u>\$ 6,771,126</u>	 <u>\$ 80,168,280</u>

NOTE 4: LONG-TERM LIABILITIES

In April 2007, Three Rivers Levee Improvement Authority Board of Directors approved the formation of two Communities Facilities Districts (CFDs) and issued two series of bonds: Series A related to CFD 2006-1 in the total amount of \$14,930,382, and Series B related to CFD 2006-2 in the total amount of \$8,663,901. The property owners within the proposed boundaries of the CFDs who qualified as electors for the purposes of authorizing the CFDs unanimously voted to form the CFD's to incur bond indebtedness to fund the costs of the Levee Improvement Program funded through an advanced funding agreement entered into by certain landowners, Yuba County and TRLIA.

Both of these series of bonds are Builder Bonds, 100 percent of which were purchased by landowners in the CFDs at the time of formation. All of the Builder Bonds are capital appreciation bonds, which have no debt service or annual cost associated with them. These bonds accrete in value over time, and the entire accreted amount is due at either redemption or maturity of the bonds (2037) solely to the extent payable by special tax collections or Refunding

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Bonds issued by the CFDs. Refunding bonds are expected to be issued by the CFDs to repay the outstanding builders bonds and potentially fund remaining levee funding obligations.

For the fiscal year ended June 30, 2017, the change in long-term liabilities was as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Capital Improvement Bonds:				
Special Tax 2007 Series A	\$ 27,287,845	\$ 2,899,455	\$ 203,917	\$ 29,983,383
Special Tax 2007 Series B	16,668,479	1,159,517	1,546,626	16,281,370
 Total	 \$ 43,956,324	 \$ 4,058,972	 \$ 1,750,543	 \$ 46,264,753

NOTE 5: PENSION

The employees who work for the Authority are actually County employees and are covered under the retirement plan of the County. Required disclosure information regarding employees' retirement plan can be found in the County's audited financial statements.

NOTE 6: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The employees who work for the Authority are actually County employees and are covered under the post-employment benefit plan of the County. Required disclosure information regarding post-employment benefits can be found in the County's audited financial statements.

NOTE 7: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority's liability coverage is maintained with the CSAC Excess Insurance Authority.

NOTE 8: RELATED PARTY TRANSACTIONS

The Authority reimburses the County of Yuba for personnel salaries and benefits. The total amount of expense recorded to reimburse the County of Yuba during the fiscal year ended June 30, 2017 was \$262,654.

REQUIRED SUPPLEMENTARY INFORMATION

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 10,063,363	10,063,363	\$ 10,063,363	\$ --
Resources (inflows):				
Direct Assessments	28,500	28,500	--	(28,500)
Intergovernmental Revenues	18,005,573	18,005,573	7,042,563	(10,963,010)
Other	--	--	226,697	226,697
Amounts available for appropriation	<u>28,097,436</u>	<u>28,097,436</u>	<u>17,332,623</u>	<u>(10,764,813)</u>
Expenditures (outflows):				
Insurance	319,000	319,000	282,108	36,892
Membership	19,800	19,800	19,740	60
Special Projects	17,240,247	17,240,247	7,055,275	10,184,972
Professional Services	476,900	476,900	173,467	303,433
TRLIA Funding District Admin.	28,500	28,500	--	28,500
TRLIA Outreach	40,000	40,000	--	40,000
Travel	13,000	13,000	8,546	4,454
Total charges to appropriations	<u>18,137,447</u>	<u>18,137,447</u>	<u>7,539,136</u>	<u>10,598,311</u>
Budgetary fund balances, June 30	<u>\$ 9,959,989</u>	<u>\$ 9,959,989</u>	<u>\$ 9,793,487</u>	<u>\$ (166,502)</u>

**THREE RIVERS LEVEE IMPROVEMENT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

BUDGETARY BASIS OF ACCOUNTING

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Executive Director submits to the Board of Directors a proposed operating budget for the following fiscal year. This budget includes proposed expenditures by fund and the revenues expected to finance them.
2. The Executive Director is authorized to transfer budgeted amounts; however, any revisions which alter total expenditures of any fund must be approved by the Board of Directors.
3. Formal budgetary integration is employed as management control device during the year for the General Fund.
4. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the fiscal year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year which were contingent upon new or additional revenue sources and re-appropriated amounts for prior year encumbrances. The Executive Director must approve any adjustments to the budget.
5. Appropriations lapse at the end of the fiscal year.
6. Budgeted appropriations for the various governmental funds become effective each July 1. The Board of Directors may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for the General Fund presents comparisons of the legally-adopted budget with actual data on a basis consistent with accounting principles generally accepted in the United States of America.

The Authority did not present a budgetary schedule for the Levee Assessment this year since the fund did not report a budget this year.

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**

Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California

We have audited, 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, the financial statements of the governmental activities and each major fund of the Three Rivers Levee Improvement Authority (Authority) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
March 23, 2018