

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2016

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THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Three Rivers Levee Improvement Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Three Rivers Levee Improvement Authority

Emphasis of Matter

As described in note 9 to the basic financial statements, the Authority restated the net position of the government-wide statements by \$50,433,041 to reflect the reporting of the capital assets, bonds payable and prior year revenues not previously reported in the statement of net position. The auditor's opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Information and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017 on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
September 19, 2017

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Statement of Net Position
June 30, 2016

Assets	
Cash and investments in County Treasury	\$ 7,882,663
Cash with fiscal agent	2,797,961
Due from other government agencies	9,071,950
Interest receivable	6,307
Capital assets:	
Nondepreciable	<u>80,601,526</u>
Total Assets	<u>100,360,407</u>
Liabilities	
Accounts payable	22,833
Long-term liabilities:	
Bonds payable, noncurrent portion	<u>43,956,324</u>
Total Liabilities	<u>43,979,157</u>
Net Position	
Net investment in capital assets	36,645,202
Restricted for restoration area endowment	2,797,961
Unrestricted	<u>16,938,087</u>
Total Net Position	<u>\$ 56,381,250</u>

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, 2016

Expenses

Administrative Expenses:

Salaries and employee benefits	\$ 264,710
Insurance	302,569
Memberships	19,710
Professional services	191,320
Travel	14,303

Special Projects:

Levee improvement costs	4,649,675
Maintenance reimbursements	914,922
Developer impact fee payments	253,155
Fiduciary fees	20,009

Interest expense.

3,168,444

Total Program Expenses

9,798,817

Program Revenues

Intergovernmental revenue	13,855,653
Property assessments and fees	971,387
CFD direct assessments	602,219
Rental income	115,456

Total Program Revenues

15,544,715

Net Program Expense

5,745,898

General Revenues

Investment earnings	21,683
Other revenue	180,628

Total General Revenues

202,311

Change in Net Position

5,948,209

Net Position - Beginning of Year, restated

50,433,041

Net Position - End of Year

\$ 56,381,250

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, 2016

	General	Levee Assessment	CFD 2006-1	CFD 2006-2	Total
Assets					
Cash and investments in County Treasury	\$ 7,084,911	\$ 192,976	\$ 483,484	\$ 121,292	\$ 7,882,663
Cash with fiscal agent	2,797,961	-	-	-	2,797,961
Due from other government agencies	9,071,950	-	-	-	9,071,950
Interest receivable	3,324	1,947	829	207	6,307
Total Assets	\$ 18,958,146	\$ 194,923	\$ 484,313	\$ 121,499	\$ 19,758,881
Liabilities					
Accounts payable	\$ 22,833	\$ -	\$ -	\$ -	\$ 22,833
Unavailable revenue	8,871,950	-	-	-	8,871,950
Total Liabilities	8,894,783	-	-	-	8,894,783
Fund Balances					
Restricted	10,063,363	194,923	484,313	121,499	10,864,098
Total Fund Balances	10,063,363	194,923	484,313	121,499	10,864,098
Total Liabilities and Fund Balance	\$ 18,958,146	\$ 194,923	\$ 484,313	\$ 121,499	\$ 19,758,881

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, 2016

Fund Balance - total governmental funds	\$ 10,864,098
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.	8,871,950
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	80,601,526
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>(43,956,324)</u>
Net position of governmental activities	<u>\$ 56,381,250</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, 2016

	General	Levee Assessment	CFD 2006-1	CFD 2006-2	Total
Revenues					
Intergovernmental revenue	\$ 6,911,613	\$ --	\$ --	\$ --	\$ 6,911,613
Property assessments and fees	--	971,387	--	--	971,387
CFD direct assessments	--	--	482,731	119,488	602,219
Use of money and property	131,382	3,295	1,924	538	137,139
Other revenue	180,628	--	--	--	180,628
Total Revenues	<u>7,223,623</u>	<u>974,682</u>	<u>484,655</u>	<u>120,026</u>	<u>8,802,986</u>
Expenditures					
Current:					
Administrative:					
Salaries and benefits	264,710	--	--	--	264,710
Insurance	302,569	--	--	--	302,569
Memberships	19,710	--	--	--	19,710
Professional services	191,320	--	--	--	191,320
Travel	14,303	--	--	--	14,303
Special projects:					
Levee improvement costs	4,862,072	--	--	--	4,862,072
Maintenance reimbursements	--	914,922	--	--	914,922
Developer impact fee payments	--	--	226,448	26,707	253,155
Fiduciary fees	--	--	11,697	8,312	20,009
Redemption of CFD bonds	--	--	--	16,432	16,432
Total Expenditures	<u>5,654,684</u>	<u>914,922</u>	<u>238,145</u>	<u>51,451</u>	<u>6,859,202</u>
Net change in fund balances	1,568,939	59,760	246,510	68,575	1,943,784
Fund Balance - Beginning of Year	<u>8,494,424</u>	<u>135,163</u>	<u>237,803</u>	<u>52,924</u>	<u>8,920,314</u>
Fund Balance - End of Year	<u>\$ 10,063,363</u>	<u>\$ 194,923</u>	<u>\$ 484,313</u>	<u>\$ 121,499</u>	<u>\$ 10,864,098</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, 2016

Net change to fund balance - total governmental funds	\$ 1,943,784
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.	6,944,040
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. Disposals are reported as expenses.	
Capital asset expenditures	4,297,475
Disposal of capital assets	(4,085,078)
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	16,432
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>(3,168,444)</u>
Change in net position of governmental activities	<u>\$ 5,948,209</u>

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

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements For the Year Ended June 30, 2016

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 Special Revenue Fund represents the Levee Assessment fund activities. 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 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.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements
For the Year Ended June 30, 2016

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.
- 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.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements For the Year Ended June 30, 2016

- 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, 2016, consisted of the following:

Cash in treasury	\$	7,882,663
Cash with fiscal agent		2,797,961
	\$	<u>10,680,624</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.

Required risk disclosures for the Authority's investment in the Yuba County Investment Pool at June 30, 2016, 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.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016, the change in capital assets was as follows:

	Restated Balance July 01, 2015	Additions	Retirements	Balance June 30, 2016
Nondepreciable:				
Land	\$ 29,575,945	\$ 179,729	\$ -	\$ 29,755,674
Construction in progress	50,813,184	4,117,746	4,085,078	50,845,852
Total	\$ 80,389,129	\$ 4,297,475	\$ 4,085,078	\$ 80,601,526

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 of Refunding 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, 2016, the change in long-term liabilities was as follows:

	Restated Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Capital Improvement Bonds:				
Special Tax 2007 Series A	\$ 25,321,632	\$ 1,966,213	\$ -	\$ 27,287,845
Special Tax 2007 Series B	15,482,680	1,202,231	16,432	16,668,479
Total	\$ 40,804,312	\$ 3,168,444	\$ 16,432	\$ 43,956,324

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016 was \$264,710.

NOTE 9: RESTATEMENT OF NET POSITION

Adjustments resulting from errors or a change to comply with the provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the Authority reports these changes as restatements of beginning net position or fund balances.

During the current year, the following prior period adjustments were made.

	<u>Government-wide Statements</u>
Net Position, July 1, 2015, as previously reported	\$ 8,920,314
<u>Restatements:</u>	
To report revenues not recognized in the prior year in the statement of net position.	1,927,910
To report capital assets	80,389,129
To report bonds payable	<u>(40,804,312)</u>
Net Position, July 1, 2015, as restated	<u>\$ 50,433,041</u>

REQUIRED SUPPLEMENTARY INFORMATION

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Budgetary fund balances, July 1	\$ 8,494,424	8,494,424	\$ 8,494,424	\$ --
Resources (inflows):				
Direct Assessments	29,000	29,000	--	(29,000)
Intergovernmental Revenues	12,955,152	12,955,152	6,911,613	(6,043,539)
Other	12,000	12,000	312,010	300,010
Amounts available for appropriation	<u>21,490,576</u>	<u>21,490,576</u>	<u>15,718,047</u>	<u>(5,772,529)</u>
Expenditures (outflows):				
Insurance	319,000	319,000	302,569	16,431
Membership	16,500	16,500	19,710	(3,210)
Special Projects	11,445,400	11,445,400	5,126,782	6,318,618
Professional Services	469,000	469,000	191,320	277,680
TRLIA Funding District Admin.	29,000	29,000	--	29,000
TRLIA Outreach	40,000	40,000	--	40,000
Travel	13,000	13,000	14,303	(1,303)
Total charges to appropriations	<u>12,331,900</u>	<u>12,331,900</u>	<u>5,654,684</u>	<u>6,677,216</u>
Budgetary fund balances, June 30	<u>\$ 9,158,676</u>	<u>\$ 9,158,676</u>	<u>\$ 10,063,363</u>	<u>\$ 904,687</u>

THREE RIVERS LEVELLE IMPROVEMENT AUTHORITY

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

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.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2016, expenditures exceeded appropriations in the following budgeted units:

<u>Fund</u>	<u>Budget Unit</u>	<u>Excess of Expenditures Over Appropriations</u>
General Fund	Membership	3,210
General Fund	Travel	1,303

OTHER REPORTS



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

To the Board of Directors
Three Rivers Levee Improvement Authority
Marysville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Three Rivers Levee Improvement Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 19, 2017.

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 an opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefor, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2016-1 and 2016-2).

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*.

To the Board of Directors
Three Rivers Levee Improvement Authority

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 Authority'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Roseville, California
September 19, 2017

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Schedule of Findings and Responses
June 30, 2016

Finding 2016-01

Material Weakness in Internal Control over Financial Reporting Capital Assets and Bonds Payable

Criteria:

Capital assets should be reported as an asset in the government-wide statements until the asset is retired or transferred to other entities. When transferred, the project costs should then be expensed for the amount transferred. Bonds payable should be reported as a liability of the Authority to reflect the obligation of the CFDs, blended component units of the Authority.

Condition:

The Authority had not previously reported the capital assets, acquisition of land and construction in progress, as an asset until the projects phase completion and asset transfer to other entities. The costs had been reported as expenses, thus requiring a prior period adjustment to accumulated project costs and net position of \$80,389,129.

Additionally, the Authority had not previously reported bonds payable relating to the CFDs resulting in a prior period adjustment of \$40,804,312 to net position.

Effect or Potential Effect:

Assets and net position had been understated by \$80,389,129. Capital assets had been reported as expenses throughout the phases of the levee improvement project. Bonds payable had been understated by \$40,804,312, resulting in an overstatement of the same amount to net position.

Recommendations:

The Authority should implement a procedure to maintain a schedule that tracks costs and retirements of phases of the levee improvement project to be reported in the Authority's financial statements. Additionally, the Authority should report the amount of outstanding bonds related to CFDs in its financial statements.

Management Response:

The Authority has created a schedule to track costs and retirements of phases of the levee improvement project. The Authority will maintain this accumulated project costs schedule going forward to accurately report additions and retirements of the phases of the levee improvement project. While the Authority is tracking the outstanding bonds of the CFDs internally, it will continue to report its bonds in its financial statements.

THREE RIVERS LEVEE IMPROVEMENT AUTHORITY

Schedule of Findings and Responses
June 30, 2016

Finding 2016-02

Material Weakness in Internal Control over Financial Reporting Revenue Recognition

Criteria:

Generally accepted accounting principles (GAAP) requires that governmental funds are reported using the current financial resources measurement focus and the modified basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority policy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned. On an accrual basis, revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenues from property tax is recognized in the fiscal year for which the taxes are levied.

Condition:

During our audit, we noted the Authority had multiple instances where revenue recognition principles as described above were not applied properly.

Effect or Potential Effect:

This condition materially misstated revenues, due from other governments, unavailable revenue, fund balance and net position of the Authority. A summary of the misstatements identified as a result of audit procedures follows:

- Revenues of \$200,000 from State of California was not accrued.
- Intergovernmental revenues of \$6,944,041 not received within the 60 day availability period was not reported as unavailable revenues in the General Fund.
- Prior year revenues of \$1,927,910 was omitted from the Government Wide Statement of Activities in previous years.

Recommendations:

We recommend the Authority adopt policies to perform sufficient analysis of accruals and cash receipts to allow for proper recording of these transactions. The months following the end of the fiscal year, staff should analyze cash receipts to ensure proper revenue recognition.

Management Response:

With assistance from the Yuba County Auditor-Controller's office, Management is working with the Auditor-Controller to address the issues and expects to have them corrected for the 16-17 fiscal year.

