
**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE
(A COMPONENT UNIT OF THE
TOWN OF TRUCKEE, CALIFORNIA)
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

**SMITH AND NEWELL
CERTIFIED PUBLIC ACCOUNTANTS
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**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE
(A Component Unit of the Town of Truckee, California)
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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FINANCIAL SECTION

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- **Independent Auditor's Report**
 - **Management's Discussion and Analysis**
 - **Financial Statements**
 - **Required Supplementary Information**

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Redevelopment Agency of the Town of Truckee
Truckee, California

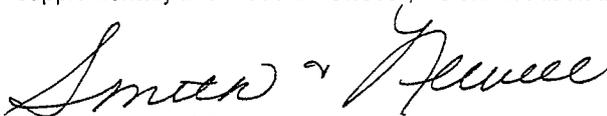
We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the Town of Truckee (Agency)(a redevelopment agency formed under the laws of the State of California) and a component unit of the Town of Truckee, California, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit 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 Agency as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2006, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 19 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Smith & Newell CPA's
Yuba City, California
November 1, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Town of Truckee Redevelopment Agency
Management Discussion and Analysis
June 30, 2006**

As management of the Town of Truckee Redevelopment Agency (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2006.

Financial Highlights

The assets of the Agency exceed its liabilities, at the close of the fiscal year ended June 30, 2006, by \$1,352,631.

The Agency's total net assets increased by \$619,523. This increase is primarily attributable to the increase in tax increment received from Nevada County.

As of June 30, 2006, the Agency's governmental funds reported combined ending fund balances of \$1,352,631 an increase of \$619,523 in comparison with the prior year. The increase is again primarily attributable to the increase in tax increment received from Nevada County.

The Agency's total debt increased by \$2,676,836 during the current fiscal year. The increase was attributable to advances from the City's General fund and accrued unpaid interest.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both the government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include public works and interest on long-term debt. The Agency does not have business-type activities.

The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are classified as governmental funds.

Governmental funds. 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, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 governmental 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.

The Agency maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund. All funds of the Agency are considered to be major funds.

The Agency adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for the major special revenue fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 and 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-18 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$1,352,631 at June 30, 2006.

Agency Net Assets

	Activities June 30, 2006	Activities June 30, 2005
Current and other assets	\$ 5,571,271	\$ 2,391,656
Land held for redevelopment	200,000	200,000
Total assets	<u>5,771,271</u>	<u>2,591,656</u>
Other liabilities	294,534	411,278
Due to Town of Truckee	4,124,106	1,447,270
Total Liabilities	<u>4,418,640</u>	<u>1,858,548</u>
Restricted for capital projects	464,594	(876,798)
Restricted for other purpose	888,037	1,609,906
Total net assets	<u>\$ 1,352,631</u>	<u>\$ 733,108</u>

A portion of the Agency's net assets \$888,037 represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities increased the Agency's net assets by \$619,523 primarily as a result of receiving tax increment received from Nevada County.

Agency Changes in Net Assets

	Activities June 30, 2006	Activities June 30, 2005
General Revenues:		
Property taxes, RDA tax increment	\$ 1,234,743	\$ 897,254
Investment income	129,360	41,588
Intergovernmental	17,996	14,436
Total revenues	1,382,099	953,278
Expenses:		
Administrative costs	220,712	197,703
Interest expense	176,836	107,205
Capital projects	365,028	168,231
Total expenses	762,576	473,139
Increase (Decrease) in net assets	619,523	480,139
Net assets - beginning of year	733,108	252,969
Net assets - end of year	\$ 1,352,631	\$ 733,108

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$1,352,631, an increase of \$619,523 in comparison with the prior year. There is \$888,037 of ending fund balance restricted for Community Development to be used for low and moderate-income housing in the Housing Set-Aside fund.

Budgetary Highlights

The taxes and assessments budget variance of \$55,401 is primarily attributable to higher than expected tax increment revenue received from Nevada County. The use of money and property budget variance of \$4,979 is attributable to higher than expected investment income due to higher than anticipated interest rates.

Debt Administration

At the end of the current fiscal year, the Agency had total debt outstanding of \$4,124,106.

Agency Outstanding Debt

	Activities June 30, 2006	Activities June 30, 2005
Advances to the Redevelopment Agency	\$ 4,124,106	\$ 1,447,270

The Agency's total debt increased by \$2,676,836 during the current fiscal year as a result of advances from the City's General fund and accrued unpaid interest. Additional information on the Agency's long-term debt can be found in note 3 on page 18 of this report.

Economic Factors and Next Year's Budgets and Rates

- ⌘ Local property values remain strong; therefore, property tax increment (approximately 94 percent of Agency-wide revenues) remains unaffected by fluctuations in the economy.
- ⌘ Investment interest rates increased from an average of 2.3% to an average of 3.7% during fiscal year 2005-2006.

Both of these factors were considered in preparing the Agency's budget for the fiscal year 2005-2006.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Agency for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department, Town of Truckee, 10183 Truckee Airport Road, Truckee, CA 96161-3306.

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FINANCIAL STATEMENTS
Government Wide Financial Statements

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**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Total
<u>ASSETS</u>		
Cash and investments	\$ 5,349,871	\$ 5,349,871
Interest receivable	43,879	43,879
Taxes receivable	177,521	177,521
Land held for resale	200,000	200,000
Total Assets	5,771,271	5,771,271
<u>LIABILITIES</u>		
Accounts payable	294,534	294,534
Advances from other funds	4,124,106	4,124,106
Total Liabilities	4,418,640	4,418,640
<u>NET ASSETS</u>		
Restricted for capital projects	464,594	464,594
Restricted for other purposes	888,037	888,037
Total Net Assets	\$ 1,352,631	\$ 1,352,631

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Community development	\$ 220,712	\$ -	\$ 17,996	\$ -	\$ (202,716)	\$ (202,716)
Interest on long-term debt	176,836	-	-	-	(176,836)	(176,836)
Total Governmental Activities	\$ 397,548	\$ -	\$ 17,996	\$ -	(379,552)	(379,552)
General revenues:						
Taxes:						
Property taxes					1,234,743	1,234,743
Interest and investment earnings					129,360	129,360
Transfers to the Town of Truckee					(365,028)	(365,028)
					999,075	999,075
					619,523	619,523
					733,108	733,108
					\$ 1,352,631	\$ 1,352,631

The notes to the financial statements are an integral part of this statement.

FINANCIAL STATEMENTS
Fund Financial Statements

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**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Redevelopment Housing	Redevelopment Debt	Redevelopment Capital Projects	Totals
<u>ASSETS</u>				
Cash and investments	\$ 845,329	\$ -	\$ 4,504,542	\$ 5,349,871
Interest receivable	7,615	-	36,264	43,879
Taxes receivable	35,093	-	142,428	177,521
Land held for resale	-	-	200,000	200,000
	\$ 888,037	\$ -	\$ 4,883,234	\$ 5,771,271
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 294,534	\$ 294,534
Advances from Town of Truckee	-	-	4,124,106	4,124,106
	-	-	4,418,640	4,418,640
FUND BALANCES				
Fund balance				
Reserved for:				
Land held for resale	-	-	200,000	200,000
Unreserved, reported in:				
Special revenue funds	888,037	-	-	888,037
Capital project funds	-	-	264,594	264,594
	888,037	-	464,594	1,352,631
Total Fund Balances	888,037	-	464,594	1,352,631
Total Liabilities and Fund Balances	\$ 888,037	\$ -	\$ 4,883,234	\$ 5,771,271

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**
JUNE 30, 2006

Total Governmental Fund Balances	\$ 1,352,631
No adjustments were needed to reconcile the Governmental Fund Balance Sheet to the Statement of Net Assets.	<u>-</u>
Net Assets of Governmental Activities	<u><u>\$ 1,352,631</u></u>

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Redevelopment Housing	Redevelopment Debt	Redevelopment Capital Projects	Totals
<u>REVENUES</u>				
Taxes and assessments	\$ 309,401	\$ -	\$ 925,342	\$ 1,234,743
Use of money and property	21,479	-	107,881	129,360
Intergovernmental	-	-	17,996	17,996
Total Revenues	330,880	-	1,051,219	1,382,099
<u>EXPENDITURES</u>				
Current:				
Community development	-	-	220,712	220,712
Debt service:				
Interest and other charges	-	-	176,836	176,836
Total Expenditures	-	-	397,548	397,548
Excess of Revenues Over (Under) Expenditures	330,880	-	653,671	984,551
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	-	-	1,609,907	1,609,907
Transfers out	-	(1,609,907)	-	(1,609,907)
Transfers in (out) from Town of Truckee	-	-	(365,028)	(365,028)
Total Other Financing Sources (Uses)	-	(1,609,907)	1,244,879	(365,028)
Net Change in Fund Balances	330,880	(1,609,907)	1,898,550	619,523
Fund Balances - Beginning	557,157	1,609,907	(1,433,956)	733,108
Fund Balances - Ending	\$ 888,037	\$ -	\$ 464,594	\$ 1,352,631

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ 619,523
No adjustments were needed to reconcile the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.	<u>-</u>
Change in Net Assets of Governmental Activities	<u>\$ 619,523</u>

The notes to the financial statements are an integral part of this statement.

FINANCIAL STATEMENTS
Notes to the Financial Statements

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**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Redevelopment Agency of the Town of Truckee was established on October 15, 1998 pursuant to the Community Redevelopment Law of the California Health and Safety Code. The primary purpose of the Agency is to eliminate blight areas by encouraging development of residential, commercial, industrial, recreational and public facilities. The accounting methods and procedures adopted by the Agency conform to generally accepted accounting principles as applied to governmental entities.

The Agency is considered to be a component unit of the Town of Truckee. These entities are legally separate from each other. However, the Town elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the Agency. The criteria used to determine the scope of the reporting entity for financial reporting purposes are (1) exercise of oversight responsibility over such agencies by the governmental units elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

Based on the application of these criteria, the Truckee Redevelopment Agency is presented as a blended component unit within the Town of Truckee's financial statements.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities. All activity of the Agency is reflected as a governmental type activity. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

B. Basis of Presentation (Continued)

Fund Financial Statements (Continued)

The Agency reports the following major governmental funds:

- The Redevelopment Housing Fund is a special revenue fund used to account for monies set aside for low and moderate income housing redevelopment.
- The Redevelopment Debt Fund is a debt service fund used to account for the accumulation of resources to be used for the repayment of Agency debt.
- The Redevelopment Capital Projects fund is a capital projects fund used to account for financial resources used for the acquisition or construction of major capital facilities.

The Agency does not report any major proprietary funds.

C. Basis of Accounting and Measurement Focus

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. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility 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. Property taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. 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. Cash and Investments

The Agency pools cash and investments of all funds, with cash and investments of the Town of Truckee. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of average month end cash balance amounts for each fund as a percentage of the total balance.

Investments are reported in the accompanying balance sheet at fair value which is determined using selected bases. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Investment transactions are recorded on the trade date. Investments in nonparticipating interest-bearing investment contracts are reported at cost, investments in commercial paper that have a maturity of less than 90 days are reported at amortized cost, and all other investments are reported at fair value. The fair value represents the amount the Town could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. The fair value of investments is obtained by using quotations obtained from independent published sources.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Cash and Investments (Continued)

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants. During the fiscal year ended June 30, 2006, the Truckee Town Council has not entered into any legally binding guarantees to support the participant equity in the investment pool.

E. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as interest and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, 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 60 days since they would be considered both measurable and available.

F. Inventory and Prepaid Costs

All inventory items and supplies are recorded as expenditures when purchased. The amount on hand at June 30, 2006, was not considered material.

Certain payments to vendors reflect costs applicable to future accounting periods.

G. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are reported at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations would be accounted for as capital outlay expenditures of the governmental fund at the time of acquisition.

At June 30, 2006, the Agency had no reportable capital assets other than land held for resale, which is classified as a current asset.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

H. Long-Term Debt

All long-term debt to be repaid from governmental type resources are reported as liabilities in the government-wide statements. The long-term debt consists of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

I. Net Assets/Fund Balances

Government-Wide Statements

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as investments in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

In the governmental fund financial statements, reserves and designations segregate portions of fund balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change. The Agency had no designations at June 30, 2006.

The Agency’s reserves at June 30, 2006, are comprised of the following:

	<u>General Fund</u>
Reserved for:	
RDA land held for resale	\$ 200,000
Total Reserved	\$ 200,000

A description of reserves follows:

Reserved for RDA land held for resale - to reflect the portion of assets which does not represent available spendable resources.

J. Taxes and Assessments

The Agency is funded primarily by allocated tax increment revenues. Information on property tax levy, collection and maximum rates is contained in the Town of Truckee financial statements.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

K. Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

L. Estimates

The preparation of 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: DETAILED NOTES

A. Cash and Investments

The Agency follows the practice of pooling all cash and investments with the Town of Truckee. Complete disclosure of Town of Truckee investment policies can be found in the Town annual audited financial statements

Total Agency cash and investments are reported as follows:

Redevelopment Housing	\$ 845,329
Redevelopment Capital Projects	<u>4,504,542</u>
Total Cash and Investments	<u>\$ 5,349,871</u>

Total Agency cash and investments are as follows:

Investments:	
In Town Treasurer's pool	<u>\$ 5,349,871</u>
Total Cash and Investments	<u>\$ 5,349,871</u>

Interest Rate Risk

Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the Agency are pooled with the Town of Truckee investment pool. The Agency does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and Town investment pool policy limit investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. The Agency has no investment policy that would further limit its investment choices.

Custodial Credit Risk

At year end, neither the Agency nor Town participated in any repurchase agreements or securities lending that would result in any possible risk in this area.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The Agency has invested all cash, in the Town investment pool which contains a diversification of investments.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 3: OTHER INFORMATION

A. Insurance

Because of the close relationship between the Agency and the Town of Truckee, the Agency's liability coverage is provided by the Town's insurance policies. Complete information on risk management can be found in the Town of Truckee's audited financial statements.

B. Low and Moderate Housing Obligation

Section 333346 subdivision (c) of the California Health and Safety Code (the Code), requires the Agency project areas to deposit 20 percent of allocated tax increment revenues into a Redevelopment Housing Fund. Activity in this fund for the year ended June 30, 2006, was as follows:

Ending Balance June 30, 2005	\$	557,157
Revenue set aside:		
tax increment x .20		309,401
Interest earned		21,479
Total available		888,037
Less: Expenditure Allocations		(-)
Ending Balance June 30, 2006	\$	888,037

C. Transfers to Town of Truckee

Transfers to Town of Truckee were made for capital projects. During the year ended June 30, 2006, the following transfers were made:

Capital projects	\$	365,028
Total Transfers	\$	365,028

D. Advances From Town of Truckee

The Town of Truckee has advanced funds to the Truckee Redevelopment Agency pursuant to a cooperation agreement. The balance on the advance payable at June 30, 2006 is \$4,124,106.

REQUIRED SUPPLEMENTARY INFORMATION

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**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE, CALIFORNIA**
(A Component Unit of the Town of Truckee, California)
BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT HOUSING - MAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>				
Taxes and assessments	\$ 254,000	\$ 254,000	\$ 309,401	\$ 55,401
Use of money and property	16,500	16,500	21,479	4,979
Total Revenues	<u>270,500</u>	<u>270,500</u>	<u>330,880</u>	<u>60,380</u>
<u>EXPENDITURES</u>				
Current:				
Community development	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>270,500</u>	<u>270,500</u>	<u>330,880</u>	<u>60,380</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	270,500	270,500	330,880	60,380
Fund Balance - Beginning	<u>557,157</u>	<u>557,157</u>	<u>557,157</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 827,657</u>	<u>\$ 827,657</u>	<u>\$ 888,037</u>	<u>\$ 60,380</u>

See the accompanying note to the required supplementary information.

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

BUDGETARY BASIS OF ACCOUNTING

The budget for the Agency is adopted with the Town of Truckee budget. The Town of Truckee follows these procedures annually in establishing the budgetary data reflected in the financial statements:

- (1) The Town Administrator submits to the Town Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- (2) The Town Council reviews the proposed budget at regularly scheduled meetings, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein, as proposed expenditures become appropriations to the various Town departments. The Town Council may amend the budget by motion during the fiscal year. The Town Administrator may authorize transfers from one object or purpose to another within the same department.

Formal budgetary integration is employed as a management control device during the year. The Town presents a comparison of annual budgets to actual results for the Redevelopment Housing Fund. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

OTHER REPORT AND SCHEDULES

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**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 Governing Board
Redevelopment Agency of the Town of Truckee
Truckee, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the Town of Truckee (Agency) (a redevelopment agency formed under the laws of California) and a component unit of the Town of Truckee, California as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 1, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain additional matters that we reported to management of the Agency in the Schedule of Findings and Recommendations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also performed the procedures contained in the publication entitled "Guidelines for Compliance Audits of California Redevelopment Agencies" dated November 1998, promulgated by the California State Controller, Division of Local Government Fiscal Affairs, in connection with a review of the Agency's compliance with laws, regulations, and administrative requirements governing activities of the Agency, as required by the Health and Safety Code of the State of California.

This report is intended solely for the information and use of management, others within the organization, Governing Board, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's
Yuba City, California
November 1, 2006

**REDEVELOPMENT AGENCY OF THE
TOWN OF TRUCKEE**
(A Component Unit of the Town of Truckee, California)
STATUS OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Recommendation</u>	<u>Status/Comment</u>
FIVE-YEAR IMPLEMENTATION PLAN	
We recommend that the Agency implement and maintain a current five-year implementation plan.	Implemented