

CITY OF RED BLUFF
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2009

CITY OF RED BLUFF
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CITY OF RED BLUFF
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2009

CITY COUNCIL

Mayor Jeffery Moyer
Mayor Pro Tem Bob Carrel
Council Member Wayne Brown
Council Member James Byrne
Council Member Forrest Flynn

ADMINISTRATIVE PERSONNEL

City Manager Martin Nichols
City Attorney Richard Crabtree
City Treasurer Donna Gordy
Finance Director Margaret VanWarmerdam
Director of Public Works Mike Barthel
Planning Director Scot Timboe
Director of Parks & Recreation Debbie Carlisi
Police Chief Paul Nanfito
Fire Chief Mike Bachmeyer
City Clerk Jo Anna Lopez
Human Resources Director Tessa Pritchard
Building Director J.D. Ellison

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Red Bluff, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bluff, California, as of and for the year ended June 30, 2009, which collectively comprise the City of Red Bluff's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Red Bluff'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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bluff, California, as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the major special revenue funds 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 May 7, 2010, on our consideration of the City of Red Bluff'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 (MD&A) on pages 4 through 12 is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Bluff, California's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Red Bluff, California. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nystrom & Company LLP

May 7, 2010

CITY OF RED BLUFF
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

As management of City of Red Bluff, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year-ended June 30, 2009.

FINANCIAL HIGHLIGHTS

The assets of the City of Red Bluff exceeded its liabilities at the close of the most recent fiscal year by \$66,399,276 (net assets). Of this amount, \$10,932,715 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

The City's total net assets increased by \$229,714.

As of the close of the current fiscal year, the City of Red Bluff's governmental activities reported combined total net assets of \$45,333,913. Of this amount \$1,091,390 is unrestricted and available for use within the City's designation and policies.

At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$850,825 or 10.21% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements 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 City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City'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 City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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 City include general government and administration, public safety, and recreation. The business-type activities of the City include water and sewer, airport, building and planning and community center.

The government-wide financial statements can be found on pages 13 through 15 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 City, 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 City can be divided into two categories-governmental funds and proprietary 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 current sources and uses 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 effect of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 21 governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Transportation, and Grant funds, all of which are considered to be major funds. Data from the other 18 funds are combined into a single, aggregated presentation.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The basic governmental fund financial statements can be found on pages 16 through 21 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, building and planning, airport, and community center.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Waste Water and Airport Funds since all are considered to be major funds of the City. Data from the other three enterprise funds are combined into a single, aggregate presentation.

The basic proprietary fund financial statements can be found on pages 22 through 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for 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 27 through 54 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Red Bluff, assets exceeded liabilities by \$66,399,276 as of June 30, 2009.

The largest portion of the City's net assets (72%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The following table provides a summary of the City's Net Assets for the years ended June 30, 2009 and 2008.

CITY OF RED BLUFF'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current and other assets	\$ 10,740,241	\$ 11,503,690	\$ 10,453,081	\$ 9,090,637	\$ 21,193,322	\$ 20,594,327
Capital assets	<u>36,728,023</u>	<u>37,964,137</u>	<u>18,613,922</u>	<u>18,527,883</u>	<u>55,341,945</u>	<u>56,492,020</u>
Total assets	<u>47,468,264</u>	<u>49,467,827</u>	<u>29,067,003</u>	<u>27,618,520</u>	<u>76,535,267</u>	<u>77,086,347</u>
LIABILITIES						
Long-term liabilities	1,406,431	1,259,553	7,631,083	7,990,703	9,037,514	9,250,256
Other liabilities	<u>727,920</u>	<u>1,239,625</u>	<u>370,557</u>	<u>426,904</u>	<u>1,098,477</u>	<u>1,666,529</u>
Total liabilities	<u>2,134,351</u>	<u>2,499,178</u>	<u>8,001,640</u>	<u>8,417,607</u>	<u>10,135,991</u>	<u>10,916,785</u>
NET ASSETS						
Invested in capital assets, net of related debt	36,615,441	37,817,060	11,224,038	10,749,078	47,839,479	48,566,138
Restricted	7,627,082	7,204,350	-	-	7,627,082	7,204,350
Unrestricted	<u>1,091,390</u>	<u>1,947,239</u>	<u>9,841,325</u>	<u>8,451,835</u>	<u>10,932,715</u>	<u>10,399,074</u>
Total net assets	\$ <u>45,333,913</u>	\$ <u>46,968,649</u>	\$ <u>21,065,363</u>	\$ <u>19,200,913</u>	\$ <u>66,399,276</u>	\$ <u>66,169,562</u>

An additional portion of the City's net assets (11.49%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$10,932,715 may be used to meet the government's ongoing obligation to citizens and creditors.

As of June 30, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories-governmental and business-type activities.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended June 30, 2009 and 2008.

CITY OF RED BLUFF

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

CITY OF RED BLUFF'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for services	\$ 660,980	\$ 672,779	\$ 4,827,614	4,857,336	\$ 5,488,594	5,530,115
Operating grants and contributions	1,439,100	1,517,319	91,288	75,938	1,530,388	1,593,257
Capital grants and contributions	382,270	1,230,470	903,638	493,772	1,285,908	1,724,242
General Revenues:						
Sales taxes	2,703,311	3,242,968	-	-	2,703,311	3,242,968
Property taxes	1,544,955	1,549,826	56,410	53,241	1,601,365	1,603,067
Motel taxes	562,008	619,603	-	-	562,008	619,603
Special gas taxes	232,617	251,076	-	-	232,617	251,076
Franchise taxes	246,214	220,185	-	-	246,214	220,185
Other taxes	268,152	238,661	-	-	268,152	238,661
Motor vehicle license fees	1,101,409	1,069,650	-	-	1,101,409	1,069,650
Impact fees	181,331	125,659	-	-	181,331	125,659
Loss on sale of assets	(68,543)	-	-	-	(68,543)	-
Investment earnings	186,576	289,640	156,799	263,822	343,375	553,462
Total revenues	<u>9,440,380</u>	<u>11,027,836</u>	<u>6,035,749</u>	<u>5,744,109</u>	<u>15,476,129</u>	<u>16,771,945</u>
Expenses:						
General government:						
City administration	458,924	428,104	-	-	458,924	428,104
Finance	446,742	462,818	-	-	446,742	462,818
Community promotion and economic development	132,541	154,260	-	-	132,541	154,260
Human resources	195,398	196,651	-	-	195,398	196,651
Engineering and administration	367,083	328,696	-	-	367,083	328,696
Government buildings	132,983	158,797	-	-	132,983	158,797
General government	163,055	96,731	-	-	163,055	96,731
Public safety:						
Fire	2,104,130	2,104,897	-	-	2,104,130	2,104,897
Police	4,223,961	4,200,406	-	-	4,223,961	4,200,406
Parks and recreation	600,549	630,366	-	-	600,549	630,366
Transportation and streets	2,198,789	2,180,328	-	-	2,198,789	2,180,328
Senior nutrition program	312,929	309,193	-	-	312,929	309,193
Grants and program income	147,136	356,650	-	-	147,136	356,650
Building	-	-	273,459	417,263	273,459	417,263
Planning	-	-	208,447	188,664	208,447	188,664
Waste water	-	-	1,547,524	1,554,383	1,547,524	1,554,383
Water	-	-	1,294,398	1,374,550	1,294,398	1,374,550
Airport	-	-	180,926	83,113	180,926	83,113
Community center	-	-	257,441	261,748	257,441	261,748
Total expenses	<u>11,484,220</u>	<u>11,607,897</u>	<u>3,762,195</u>	<u>3,879,721</u>	<u>15,246,415</u>	<u>15,487,618</u>
Excess (deficiency) before transfers	(2,043,840)	(580,061)	2,273,554	1,864,388	229,714	1,284,327
Transfers	409,104	418,431	(409,104)	(418,431)	-	-
Increase in net assets	(1,634,736)	(161,630)	1,864,450	1,445,957	229,714	1,284,327
Net assets, beg. of year	<u>46,968,649</u>	<u>47,130,279</u>	<u>19,200,913</u>	<u>17,754,956</u>	<u>66,169,562</u>	<u>64,885,235</u>
Net assets, end of year	\$ <u>45,333,913</u>	\$ <u>46,968,649</u>	\$ <u>21,065,363</u>	\$ <u>19,200,913</u>	\$ <u>66,399,276</u>	\$ <u>66,169,562</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the City of Red Bluff's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Red Bluff's governmental funds reported combined ending fund balances of \$9,676,244. Approximately 60% of this total amount (\$5,874,802) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that is not available for new spending because it has already been committed to reserve for loans receivable (\$3,801,442).

In the General Fund, the City budgeted for a reduction in the fund balance of \$621,165 which was a result of authorized budgeted expenditures exceeding appropriations. Actual revenues were \$7,335,005 with final budget being \$7,342,948 with a unfavorable variance of \$7,943 and actual expenditures being more than budgeted expenditures with an unfavorable variance of \$424,832.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective major proprietary funds are Waste Water Fund \$4,771,192, Water Fund \$4,750,448 and Airport Fund of \$10,337. All Other Enterprise Funds had unrestricted net assets in 2009 of \$309,348.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. These changes resulted in a decrease in the General Fund expenditures from the original budget by \$538,586. Overall, authorized General Fund expenditures for fire public safety, general government, parks and recreation departments were over budget. However, General Fund expenditures for police public safety were under budget.

The City's total budgeted revenue remained unchanged during the year. Actual revenues were \$7,943 less than budgeted. The majority of the decrease was due to a decrease in Sales tax revenue in the General Fund of \$411,389 which was less than the originally budgeted amount.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

CAPITAL ASSETS

The City of Red Bluff's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$55,341,945 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, vehicles, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- The Skate park Phase II for \$221,091.
- The ADA upgrade improvement project for \$143,468.
- The Airport Rejuvenator project for \$902,206

CAPITAL ASSETS AT YEAR-END NET OF ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	\$ 305,206	\$ 305,206	\$ 910,367	\$ 910,367	\$ 1,215,573	\$ 1,215,573
Buildings	293,131	313,072	247,724	261,131	540,855	574,203
Improvements	1,866,712	1,231,079	10,428,111	9,885,542	12,294,823	11,116,621
Equipment	515,369	356,113	299,895	359,844	815,264	715,957
Vehicles	769,526	1,014,366	128,810	166,724	898,336	1,181,090
Infrastructure	32,969,498	34,119,305	6,597,542	6,848,668	39,567,040	40,967,973
Construction in progress	8,581	624,996	1,473	95,607	10,054	720,603
Total	\$ <u>36,728,023</u>	\$ <u>37,964,137</u>	\$ <u>18,613,922</u>	\$ <u>18,527,883</u>	\$ <u>55,341,945</u>	\$ <u>56,492,020</u>

Additional information on the City of Red Bluff's capital assets can be found in Note 3 on pages 40 and 41 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Red Bluff had a total bonded debt and notes payable of \$7,502,466. On October 1, 1994, the California Local Government Financing Authority issued \$6,570,000 in Water and Sewer Revenue Bonds to facilitate the financing of the construction of water and sewer systems for "smaller" local governments. The City "participated" in this issuance by executing an Installment Purchase Contract with the California Local Government Financing Authority to the extent that revenue bond proceeds amounting to \$1,400,000 became available to the City of Red Bluff for construction projects. The City's portion of the revenue bond liability originally totaled \$1,615,000, which included reserve funds and underwriting fees and costs. During the year ended June 30, 1999, the City Council authorized the upgrade and expansion of the Waste Water Treatment Plant and granted the authority to apply for and accept State Revolving Fund loan to fund a portion of that expansion. A loan of \$2,902,104 was approved by the State Revolving Fund Loan Program which is

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

administered for the State of California by the State Water Resources Control Board Project. Construction was completed on September 2, 1999. As part of the Waste Water Treatment Plant upgrade and expansion the City Council also granted the authority to apply for and accept a loan from the U.S. Department of Agriculture. A loan of \$2,335,530 was approved upon the completion of the Waste Water Treatment Plant by the Water and Waste Disposal Systems for Rural Communities Program. The Program is administered by Rural Development, an agency of the U.S Department of Agriculture.

During the year ended June 30, 2006, the City Council authorized the upgrade of the Water System to include a three million gallon water tank and granted the authority to apply for and accept a loan from the California Infrastructure and Economic Development Bank to fund the upgrade. A loan of \$3,941,700 was approved by the California Infrastructure and Economic Development Bank. The loan amount is to be repaid over a 30 year period from the effective date of the loan which is July 20, 2004. The loan calls for semi-annual payments of interest only through February 1, 2006. Effective August 1, 2006, the loan calls for semi-annual payments of interest, each February 1st and August 1st, and annual payments of principal each August 1st, with the first principal payment due on August 1, 2006. The effective interest rate on the loan is 3.07%. The disbursement of the loan proceeds were handled in a manner similar to line of credit.

OUTSTANDING DEBT AT YEAR END BONDS AND NOTES PAYABLE

	<u>Business-Type Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenue bonds payable	\$ 315,000	\$ 455,000
Notes payable	<u>7,074,884</u>	<u>7,323,805</u>
Total	\$ <u>7,389,884</u>	\$ <u>7,778,805</u>

ECONOMIC FACTORS INFLUENCING NEXT YEAR'S BUDGETS

City Management recommended and the City Council considered several important factors in adopting the 2009-10 budget, which includes:

1. The general economy and resulting decline in consumer confidence, affecting sales tax revenues.
2. The loss of a major car dealership and its sales tax base. The decline in fuel prices and its impact on sales taxes.
3. The credit market impact on the housing market and declining property taxes.
4. The State budget action and its impact on City finances.
5. City responsibility to meet the obligation of its collective bargaining agreements and those impacts on employee salary, health and pension costs.
6. Court mandated improvements to City infrastructure.

CITY OF RED BLUFF

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Finance Director, at 555 Washington Street, Red Bluff, California 96080, call (530) 527-2605.

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CITY OF RED BLUFF
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,061,254	\$ 9,068,515	\$ 14,129,769
Receivables:			
Taxes	164,047	-	164,047
Accounts, net	25,938	1,047,107	1,073,045
Interest	459,923	-	459,923
Due from other governments	512,906	706,893	1,219,799
Prepaid expenses and deferred charges	-	19,380	19,380
Internal balances	714,731	(714,731)	-
Restricted assets:			
Cash and cash equivalents	-	325,917	325,917
Loans receivable	3,801,442	-	3,801,442
Non-depreciable capital assets	313,787	911,840	1,225,627
Depreciable capital assets, net	36,414,236	17,702,082	54,116,318
	<u>\$ 47,468,264</u>	<u>\$ 29,067,003</u>	<u>\$ 76,535,267</u>
LIABILITIES			
Accounts payable	\$ 155,503	\$ 87,262	\$ 242,765
Accrued interest payable	-	103,627	103,627
Accrued wages payable	233,873	45,560	279,433
Customer/employee deposits	1,511	98,491	100,002
Other liabilities	337,033	35,617	372,650
Long-term liabilities:			
Due within one year	340,265	465,234	805,499
Due in more than one year	1,066,166	7,165,849	8,232,015
	<u>2,134,351</u>	<u>8,001,640</u>	<u>10,135,991</u>
NET ASSETS			
Investment in capital assets, net of related debt	36,615,441	11,224,038	47,839,479
Restricted for:			
Grant programs	3,945,450	-	3,945,450
Impact fee development	2,362,152	-	2,362,152
Transportation	939,912	-	939,912
Other	379,568	-	379,568
Unrestricted	1,091,390	9,841,325	10,932,715
	<u>45,333,913</u>	<u>21,065,363</u>	<u>66,399,276</u>
Total net assets	<u>\$ 47,468,264</u>	<u>\$ 29,067,003</u>	<u>\$ 76,535,267</u>
Total liabilities and net assets	<u>\$ 47,468,264</u>	<u>\$ 29,067,003</u>	<u>\$ 76,535,267</u>

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

CITY OF RED BLUFF
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General government:					
City administration	\$ 458,924	-	-	-	\$ (458,924)
Finance	446,742	-	-	-	(446,742)
Community promotion and economic development	132,541	-	-	-	(132,541)
Human resources	195,398	-	-	-	(195,398)
Engineering and administration	367,083	-	-	-	(367,083)
Government buildings	132,983	-	-	-	(132,983)
General government	163,055	375,388	31,166	-	243,499
Public safety:					
Fire	2,104,130	18,058	167,615	28,154	(1,890,303)
Police	4,223,961	136,070	281,094	41,636	(3,765,161)
Parks and recreation	600,549	84,395	-	-	(516,154)
Transportation and streets	2,198,789	-	593,063	-	(1,605,726)
Senior nutrition program	312,929	-	302,897	-	(10,032)
Grants and program income	147,136	47,069	63,265	312,480	275,678
Total governmental activities	11,484,220	660,980	1,439,100	382,270	(9,001,870)
Business-type activities:					
Building	273,459	248,353	-	-	(25,106)
Planning	208,447	80,656	-	-	(127,791)
Waste water	1,547,524	2,194,460	-	-	646,936
Water	1,294,398	2,160,972	-	-	866,574
Airport	180,926	71,971	-	903,638	794,683
Community Center	257,441	71,202	91,288	-	(94,951)
Total business-type activities	3,762,195	4,827,614	91,288	903,638	2,060,345
Total primary government	\$ 15,246,415	\$ 5,488,594	\$ 1,530,388	\$ 1,285,908	\$ (6,941,525)

(Continued on following page)

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

CITY OF RED BLUFF
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Change in net assets:			
Net (expense)/revenue	<u>\$ (9,001,870)</u>	<u>\$ 2,060,345</u>	<u>\$ (6,941,525)</u>
General revenues and transfers:			
General revenues:			
Taxes:			
Sales taxes	2,703,311	-	2,703,311
Property taxes	1,544,955	56,410	1,601,365
Motel taxes	562,008	-	562,008
Special gas taxes	232,617	-	232,617
Franchise taxes	246,214	-	246,214
Other taxes	268,152	-	268,152
Motor vehicle license fees	1,101,409	-	1,101,409
Impact fees	181,331	-	181,331
Investment earnings	186,576	156,799	343,375
Loss on sale of assets	(68,543)	-	(68,543)
Transfers	409,104	(409,104)	-
Total general revenues and transfers	<u>7,367,134</u>	<u>(195,895)</u>	<u>7,171,239</u>
Change in net assets	(1,634,736)	1,864,450	229,714
Net assets, beginning of year	<u>46,968,649</u>	<u>19,200,913</u>	<u>66,169,562</u>
Net assets, end of year	<u>\$ 45,333,913</u>	<u>\$ 21,065,363</u>	<u>\$ 66,399,276</u>

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

CITY OF RED BLUFF
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2009

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	-	\$ 520,279	\$ 253,682	\$ 4,287,293	\$ 5,061,254
Receivables:					
Taxes	139,440	24,607	-	-	164,047
Accounts	22,917	-	-	3,021	25,938
Interest	-	-	421,179	38,744	459,923
Loans	-	-	3,626,875	174,567	3,801,442
Due from other governments	192,707	27,761	75,100	205,659	501,227
Due from other funds	1,226,576	-	957	-	1,227,533
	<u>1,226,576</u>	<u>-</u>	<u>957</u>	<u>-</u>	<u>1,227,533</u>
Total assets	<u>\$ 1,581,640</u>	<u>\$ 572,647</u>	<u>\$ 4,377,793</u>	<u>\$ 4,709,284</u>	<u>\$ 11,241,364</u>
LIABILITIES					
Accounts payable	\$ 99,741	\$ 7,267	\$ 11,163	\$ 37,332	\$ 155,503
Accrued wages payable	210,854	18,448	-	4,571	233,873
Customer/employee deposits	1,511	-	-	-	1,511
Other liabilities	178,429	14,219	421,180	47,603	661,431
Due to other funds	240,280	-	-	272,522	512,802
	<u>240,280</u>	<u>-</u>	<u>-</u>	<u>272,522</u>	<u>512,802</u>
Total liabilities	<u>730,815</u>	<u>39,934</u>	<u>432,343</u>	<u>362,028</u>	<u>1,565,120</u>
FUND BALANCES					
Reserved for loans receivable	-	-	3,626,875	174,567	3,801,442
Unreserved:					
Designated for contingency	400,000	-	-	-	400,000
Undesignated, reported in:					
General fund	450,825	-	-	-	450,825
Special revenue funds	-	532,713	318,575	4,172,689	5,023,977
	<u>-</u>	<u>532,713</u>	<u>318,575</u>	<u>4,172,689</u>	<u>5,023,977</u>
Total fund balances	<u>850,825</u>	<u>532,713</u>	<u>3,945,450</u>	<u>4,347,256</u>	<u>9,676,244</u>
Total liabilities and fund balances	<u>\$ 1,581,640</u>	<u>\$ 572,647</u>	<u>\$ 4,377,793</u>	<u>\$ 4,709,284</u>	<u>\$ 11,241,364</u>

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

CITY OF RED BLUFF
RECONCILIATION OF FUND BALANCES TO NET ASSETS
JUNE 30, 2009

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 9,676,244
Assets recorded within the Statement of Net Assets not reported in the funds:		
Due from other governments		11,680
Non-depreciable capital assets		313,787
Depreciable capital assets	\$ 60,906,377	
Accumulated depreciation	<u>(24,492,141)</u>	36,414,236
Liabilities recorded within the funds not reported in the Statement of Net Assets:		
Deferred interest		459,923
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Capital lease		(112,582)
Compensated absences		(1,211,390)
Deferred income		(141,318)
Other postemployment benefits obligation		<u>(76,667)</u>
Net assets reported within the Statement of Net Assets - Governmental Activities		<u><u>\$ 45,333,913</u></u>

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

CITY OF RED BLUFF
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales taxes	\$ 2,757,611	-	-	-	\$ 2,757,611
Property taxes	1,544,955	-	-	-	1,544,955
Motel taxes	562,008	-	-	-	562,008
Franchise taxes	246,214	-	-	-	246,214
Other taxes	34,524	106,657	-	74,628	215,809
Licenses and permits	301,238	-	-	-	301,238
Fines, forfeitures and penalties	26,372	-	-	86,569	112,941
Use of money and property	51,828	436	219	66,970	119,453
Intergovernmental revenue	1,510,799	116,897	277,165	1,140,260	3,045,121
Charges for current services	113,035	-	-	-	113,035
Other revenues	186,421	-	-	291,294	477,715
Total revenues	7,335,005	223,990	277,384	1,659,721	9,496,100
Expenditures:					
Current:					
General government	1,732,432	-	-	-	1,732,432
Fire public safety	1,940,701	-	-	-	1,940,701
Police public safety	4,036,688	-	-	-	4,036,688
Parks and recreation	492,893	-	-	-	492,893
Transportation and streets	-	856,157	-	6,308	862,465
Senior nutrition program	-	-	-	308,281	308,281
Grants and program income	-	-	86,408	65,023	151,431
Capital outlay	90,149	143,468	240,900	133,419	607,936
Debt service					
Principal	34,496	-	-	-	34,496
Interest	6,280	-	-	-	6,280
Total expenditures	8,333,639	999,625	327,308	513,031	10,173,603
Excess (deficiency) of revenues over (under) expenditures	(998,634)	(775,635)	(49,924)	1,146,690	(677,503)
Other financing sources (uses):					
Operating transfers in	6,003,932	1,031,230	-	4,474	7,039,636
Operating transfers out	(5,685,528)	-	-	(945,004)	(6,630,532)
Total other financing sources (uses)	318,404	1,031,230	-	(940,530)	409,104
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(680,230)	255,595	(49,924)	206,160	(268,399)
Fund balances, beginning of year	1,531,055	277,118	3,995,374	4,141,096	9,944,643
Fund balances, end of year	\$ 850,825	\$ 532,713	\$ 3,945,450	\$ 4,347,256	\$ 9,676,244

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

CITY OF RED BLUFF
RECONCILIATION OF CHANGE IN FUND BALANCES
TO CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

Total net change in fund balance included in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ (268,399)
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.	(1,236,114)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	12,823
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	34,496
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(177,542)</u>
Net change in net assets reported within the Statement of Activities - Governmental Activities	<u>\$ (1,634,736)</u>

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

CITY OF RED BLUFF
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	\$ 3,169,000	\$ 3,169,000	\$ 2,757,611	\$ (411,389)
Property taxes	1,455,000	1,455,000	1,544,955	89,955
Motel taxes	500,000	500,000	562,008	62,008
Franchise taxes	220,000	220,000	246,214	26,214
Other taxes	43,000	43,000	34,524	(8,476)
Licenses and permits	282,650	282,650	301,238	18,588
Fines, forfeitures and penalties	19,600	19,600	26,372	6,772
Use of money and property	90,000	90,000	51,828	(38,172)
Intergovernmental revenue	1,308,448	1,308,448	1,510,799	202,351
Charges for current services	109,050	109,050	113,035	3,985
Other revenues	146,200	146,200	186,421	40,221
Total revenues	7,342,948	7,342,948	7,335,005	(7,943)
Expenditures:				
Current:				
General government	1,838,036	1,722,522	1,732,432	(9,910)
Fire public safety	1,803,563	1,664,083	1,940,701	(276,618)
Police public safety	4,218,674	4,056,140	4,036,688	19,452
Parks and recreation	547,943	426,885	492,893	(66,008)
Transportation and streets	-	-	-	-
Grants and program income	-	-	-	-
Capital outlay	39,177	39,177	90,149	(50,972)
Debt service:				
Principal	-	-	34,496	(34,496)
Interest	-	-	6,280	(6,280)
Total expenditures	8,447,393	7,908,807	8,333,639	(424,832)
Excess (deficiency) of revenues over (under) expenditures	(1,104,445)	(565,859)	(998,634)	(432,775)

(Continued on following page)

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

Transportation Fund				Grants Fund			
Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
Original	Final			Original	Final		
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
91,000	91,000	106,657	15,657	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	436	436	-	-	219	219
216,090	216,090	116,897	(99,193)	1,106,373	1,106,373	277,165	(829,208)
-	-	-	-	-	-	-	-
500	500	-	(500)	-	-	-	-
<u>307,590</u>	<u>307,590</u>	<u>223,990</u>	<u>(83,600)</u>	<u>1,106,373</u>	<u>1,106,373</u>	<u>277,384</u>	<u>(828,989)</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,003,501	1,003,501	856,157	147,344	-	-	-	-
-	-	-	-	393,648	393,648	86,408	307,240
249,100	249,100	143,468	105,632	902,725	1,702,725	240,900	1,461,825
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,252,601</u>	<u>1,252,601</u>	<u>999,625</u>	<u>252,976</u>	<u>1,296,373</u>	<u>2,096,373</u>	<u>327,308</u>	<u>1,769,065</u>
<u>(945,011)</u>	<u>(945,011)</u>	<u>(775,635)</u>	<u>169,376</u>	<u>(190,000)</u>	<u>(990,000)</u>	<u>(49,924)</u>	<u>940,076</u>

CITY OF RED BLUFF
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Other financing sources (uses):				
Operating transfers in	6,649,997	6,649,997	6,003,932	(646,065)
Operating transfers out	(6,705,303)	(6,705,303)	(5,685,528)	1,019,775
Total other financing sources (uses)	<u>(55,306)</u>	<u>(55,306)</u>	<u>318,404</u>	<u>373,710</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,159,751)	(621,165)	(680,230)	(59,065)
Fund balances, beginning of year	<u>1,531,055</u>	<u>1,531,055</u>	<u>1,531,055</u>	<u>-</u>
Fund balances, end of year	<u>\$ 371,304</u>	<u>\$ 909,890</u>	<u>\$ 850,825</u>	<u>\$ (59,065)</u>

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

Transportation Fund				Grants Fund			
Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
Original	Final			Original	Final		
712,735 (50,000)	712,735 (50,000)	1,031,230 -	318,495 50,000	190,000 -	190,000 -	- -	(190,000) -
662,735	662,735	1,031,230	368,495	190,000	190,000	-	(190,000)
(282,276)	(282,276)	255,595	537,871	-	(800,000)	(49,924)	750,076
277,118	277,118	277,118	-	3,995,374	3,995,374	3,995,374	-
<u>\$ (5,158)</u>	<u>\$ (5,158)</u>	<u>\$ 532,713</u>	<u>\$ 537,871</u>	<u>\$ 3,995,374</u>	<u>\$ 3,195,374</u>	<u>\$ 3,945,450</u>	<u>\$ 750,076</u>

CITY OF RED BLUFF
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2009

	Waste Water Fund	Water Fund	Airport Fund	Other Enterprise Funds	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 4,182,842	\$ 4,477,978	\$ 2,069	\$ 405,626	\$ 9,068,515
Receivables:					
Accounts, net	488,029	529,075	1,263	28,740	1,047,107
Due from other governments	-	-	569,880	137,013	706,893
Due from other funds	72,219	75,779	18,326	-	166,324
Total current assets	<u>4,743,090</u>	<u>5,082,832</u>	<u>591,538</u>	<u>571,379</u>	<u>10,988,839</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	325,917	-	-	-	325,917
Prepaid expenses and deferred charges	19,380	-	-	-	19,380
Non-depreciable capital assets	377,325	146,117	386,926	1,472	911,840
Depreciable capital assets, net	6,116,025	9,337,060	2,223,427	25,570	17,702,082
Total noncurrent assets	<u>6,838,647</u>	<u>9,483,177</u>	<u>2,610,353</u>	<u>27,042</u>	<u>18,959,219</u>
Total assets	<u>\$ 11,581,737</u>	<u>\$ 14,566,009</u>	<u>\$ 3,201,891</u>	<u>\$ 598,421</u>	<u>\$ 29,948,058</u>

(Continued on following page)

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

CITY OF RED BLUFF
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2009

	Waste Water Fund	Water Fund	Airport Fund	Other Enterprise Funds	Total
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 26,038	\$ 49,782	\$ 5,616	\$ 5,826	\$ 87,262
Accrued interest payable	37,107	66,520	-	-	103,627
Accrued wages payable	18,164	11,693	-	15,703	45,560
Customer/employee deposits	-	67,637	-	30,854	98,491
Other liabilities	13,298	10,399	-	11,920	35,617
Compensated absences payable, current	30,841	14,231	-	15,227	60,299
Bonds and loan payable, current	306,418	98,517	-	-	404,935
Due to other funds	99,224	69,428	575,585	136,818	881,055
Total current liabilities	531,090	388,207	581,201	216,348	1,716,846
Noncurrent liabilities:					
Compensated absences, net	92,523	42,694	-	45,683	180,900
Bonds and loans payable, net	3,458,424	3,526,525	-	-	6,984,949
Total noncurrent liabilities	3,550,947	3,569,219	-	45,683	7,165,849
Total liabilities	4,082,037	3,957,426	581,201	262,031	8,882,695
NET ASSETS					
Investment in capital assets, net of related debt	2,728,508	5,858,135	2,610,353	27,042	11,224,038
Unrestricted	4,771,192	4,750,448	10,337	309,348	9,841,325
Total net assets	7,499,700	10,608,583	2,620,690	336,390	21,065,363
Total liabilities and net assets	\$ 11,581,737	\$ 14,566,009	\$ 3,201,891	\$ 598,421	\$ 29,948,058

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

CITY OF RED BLUFF
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	Waste Water Fund	Water Fund	Airport Fund	Other Enterprise Funds	Totals
Operating revenues:					
Charges for current services:					
Waste water and water charges	\$ 2,194,460	\$ 2,160,972	-	-	\$ 4,355,432
Permits and fees	-	-	-	270,354	270,354
Rental revenue	-	-	59,571	61,361	120,932
Other revenue	-	-	12,400	68,496	80,896
Total operating revenues	<u>2,194,460</u>	<u>2,160,972</u>	<u>71,971</u>	<u>400,211</u>	<u>4,827,614</u>
Operating expenses:					
Cost of power and transportation	141,067	293,936	13,642	29,636	478,281
Maintenance, operations, and administration	887,033	544,298	98,449	699,904	2,229,684
Depreciation expense	415,000	322,525	68,835	9,807	816,167
Total operating expenses	<u>1,443,100</u>	<u>1,160,759</u>	<u>180,926</u>	<u>739,347</u>	<u>3,524,132</u>
Operating income (loss)	<u>751,360</u>	<u>1,000,213</u>	<u>(108,955)</u>	<u>(339,136)</u>	<u>1,303,482</u>
Nonoperating revenues (expenses):					
Property taxes	-	-	56,410	-	56,410
Intergovernmental revenues	-	-	-	91,288	91,288
Investment income	47,158	104,859	221	4,561	156,799
Interest expense	(104,424)	(133,639)	-	-	(238,063)
Total nonoperating revenues (expenses)	<u>(57,266)</u>	<u>(28,780)</u>	<u>56,631</u>	<u>95,849</u>	<u>66,434</u>
Income before operating transfers	694,094	971,433	(52,324)	(243,287)	1,369,916
Capital contributions	-	-	903,638	-	903,638
Operating transfers in	-	-	-	226,237	226,237
Operating transfers out	(205,992)	(287,496)	(109,518)	(32,335)	(635,341)
Change in net assets	488,102	683,937	741,796	(49,385)	1,864,450
Total net assets, beginning of year	<u>7,011,598</u>	<u>9,924,646</u>	<u>1,878,894</u>	<u>385,775</u>	<u>19,200,913</u>
Total net assets, end of year	<u>\$ 7,499,700</u>	<u>\$ 10,608,583</u>	<u>\$ 2,620,690</u>	<u>\$ 336,390</u>	<u>\$ 21,065,363</u>

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

CITY OF RED BLUFF
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Waste Water Fund	Water Fund	Airport Fund	Other Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,182,745	\$ 2,160,915	\$ 90,623	\$ 334,691	\$ 4,768,974
Cash paid to employees (including employee benefits)	(538,100)	(376,995)	-	(551,544)	(1,466,639)
Cash paid to suppliers	(467,655)	(451,920)	(115,337)	(191,778)	(1,226,690)
Net cash provided (used) by operating activities	<u>1,176,990</u>	<u>1,332,000</u>	<u>(24,714)</u>	<u>(408,631)</u>	<u>2,075,645</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Property taxes received	-	-	56,410	-	56,410
Cash received from (paid to) other funds	27,005	(6,351)	557,259	75,799	653,712
Operating transfers in	-	-	-	226,237	226,237
Operating transfers out	(205,992)	(287,496)	(109,518)	(32,335)	(635,341)
Net cash provided (used) by noncapital financing activities	<u>(178,987)</u>	<u>(293,847)</u>	<u>504,151</u>	<u>269,701</u>	<u>301,018</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Intergovernmental revenue received	-	-	372,032	30,000	402,032
Payments for the purchase of capital assets	-	-	(902,206)	-	(902,206)
Debt principal paid	(293,339)	(95,582)	-	-	(388,921)
Debt interest paid	(111,302)	(124,495)	-	-	(235,797)
Net cash provided (used) by capital and related financing activities	<u>(404,641)</u>	<u>(220,077)</u>	<u>(530,174)</u>	<u>30,000</u>	<u>(1,124,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	47,158	104,859	221	4,561	156,799
Net cash provided by investing activities	<u>47,158</u>	<u>104,859</u>	<u>221</u>	<u>4,561</u>	<u>156,799</u>
Net increase (decrease) in cash and cash equivalents	640,520	922,935	(50,516)	(104,369)	1,408,570
Cash and cash equivalents, beginning of year	<u>3,868,239</u>	<u>3,555,043</u>	<u>52,585</u>	<u>509,995</u>	<u>7,985,862</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,508,759</u></u>	<u><u>\$ 4,477,978</u></u>	<u><u>\$ 2,069</u></u>	<u><u>\$ 405,626</u></u>	<u><u>\$ 9,394,432</u></u>

(Continued on following page)

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

CITY OF RED BLUFF
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Waste Water Fund	Water Fund	Airport Fund	Other Enterprise Funds	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 751,360	\$ 1,000,213	\$ (108,955)	\$ (339,136)	\$ 1,303,482
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	415,000	322,525	68,835	9,807	816,167
(Increase) decrease in:					
Accounts receivable	(11,715)	(6,355)	18,652	(23,796)	(23,214)
Prepaid expenses and deferred charges	3,789	1,851	-	2,882	8,522
Increase (decrease) in:					
Accounts payable	10,471	9,844	(3,246)	(4,893)	12,176
Accrued wages payable	3,822	1,952	-	(1,344)	4,430
Customer/employee deposits	-	6,298	-	(41,724)	(35,426)
Other liabilities	(11,865)	(8,581)	-	(19,347)	(39,793)
Compensated absences payable	16,128	4,253	-	8,920	29,301
Total adjustments	425,630	331,787	84,241	(69,495)	772,163
Net cash provided (used) by operating activities	<u>\$ 1,176,990</u>	<u>\$ 1,332,000</u>	<u>\$ (24,714)</u>	<u>\$ (408,631)</u>	<u>\$ 2,075,645</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:					
Cash and cash equivalents	\$ 4,182,842	\$ 4,477,978	\$ 2,069	\$ 405,626	\$ 9,068,515
Restricted assets:					
Cash and cash equivalents	325,917	-	-	-	325,917
	<u>\$ 4,508,759</u>	<u>\$ 4,477,978</u>	<u>\$ 2,069</u>	<u>\$ 405,626</u>	<u>\$ 9,394,432</u>

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

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Red Bluff, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

REPORTING ENTITY

The City of Red Bluff, California is a municipal corporation governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Red Bluff alone, as the City has no component units, related organizations or jointly governed organizations.

JOINT VENTURES

The City of Red Bluff is a participant with Tehama County (County) in two joint ventures.

The Red Bluff Community Center (Center). On November 1, 1995, the County turned over operation of the Center to the City. Both the City and the County are obligated to remit \$30,000 annually to help cover the costs of the Center and, in addition, are obligated to cover one-half of any net loss generated by the Center. The Center's land is property of the City and the building is the property of the County. However, the building is under a twenty-year lease to the City and reverts to the City upon the expiration of the lease. As of November 1, 1995, the City is recording the assets, liabilities, equity, revenues and expenses of the Center in an enterprise fund of the City, and these amounts are included in the enterprise fund amounts in the financial statements.

The Tehama Rural Area Express (TRAX), ParaTRAX, and Medical Transportation Services (METS) programs. TRAX is the fixed route program created to serve as public transportation. ParaTRAX is a demand response system, and was created to supplement the fixed route program. METS is a demand response system created to serve as medical transportation. On dissolution, the net assets of these programs will revert to the County. These programs are governed by a six-member board which includes one appointee from the City. The City and County each are obligated by contract to remit funds annually to supplement the TRAX's, ParaTRAX's, and METS' operating income. Currently, the County appropriates Transportation Development Act (TDA) funds of the City to pay the City's required remittance.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

JOINT VENTURES (Continued)

Complete financial statements for this program can be obtained at Tehama County Public Works Department.

BASIS OF PRESENTATION

The financial statement presentation required by Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the City's overall financial position and results of operations while maintaining the presentation of the financial position, results of operations and cash flows, as applicable, of the City's major funds.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City of Red Bluff. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

The accounts of the City are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Transportation Fund accounts for the operations and maintenance of the City's streets.

The Grants Fund accounts for projects paid for by grant funds.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

The City reports the following major proprietary funds:

The Waste Water Fund accounts for the operation and maintenance of the City's sewer system.

The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution system.

The Airport Fund accounts for the operation and maintenance of the City's airport facilities.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BUDGETS

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Revenues are estimated and annual appropriations are adopted for the general, special revenue, and proprietary funds. All annual appropriations lapse at fiscal year end.

During late February each year, the Finance Director reviews all estimated and actual revenues, and all estimated and actual expenditures/expenses. This analysis serves two purposes: first, it indicates if the projected revenues will be adequate to finance the projected expenditures/expenses during the current fiscal year, and second, it serves as a basis for the planning of the upcoming fiscal year's budget. In estimating the revenues for the upcoming fiscal year, the Finance Director adds the prior year's fund balances that are designated as contingency reserves, to the estimated revenues. This then results in the amount of monies that can be spent. The next step is to query all departments for their schedules of proposed expenditures/expenses for the upcoming fiscal year-end.

From the estimated revenues and proposed expenditures/expenses, a proposed budget is then formulated. The proposed budget is then subjected to a line-by-line analysis by the Finance Director and the City Manager. After this analysis, a final proposed budget is prepared when the Finance Director and the City Manager are fairly certain that the expenditures/expenses are reasonable and can be financed from revenues. Within 60 days of year end the preliminary budget is adopted by the City Council. Budget administration policies give the City Manager authority to vary from the precise budgetary appropriations within the various departments so long as the total appropriations within each fund do not exceed the total appropriations of the departmental budgets within the fund. Budgetary adjustments which would cause the total appropriations to be exceeded are accomplished by supplemental appropriations approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level. Expenditures exceeded appropriations in the General Fund by \$424,832. These over-expenditures were funded with available fund balance. Expenditures did not exceed appropriations for the major special revenue funds.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CASH AND CASH EQUIVALENTS

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments that are both readily convertible to known amounts of cash and (if applicable), so near (three months) their original maturity, that there is insignificant risk of value changes because of interest rate changes.

All of the City's investments at June 30, 2009 meet the above definition of cash equivalents.

The City follows the practice of pooling cash and investments of all funds, except for restricted funds required to be held separately. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on daily cash balances.

The California Government Code and the investment policy of the City authorize the City to invest in obligations, participations, or other instruments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements, the State Treasurer's Investment Pool (LAIF), certificates of deposit or time deposits, and passbook savings account demand deposits. Reverse repurchase agreements may be made only when prior approval of the City Council has been given.

Investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statements of net assets and the statements of revenues, expenditures and changes in fund balances. The State Treasurer's Investment Pool (LAIF) operates in accordance with appropriate state laws and regulations. The reported value of the pool is materially equivalent to the fair value of the pool shares.

RECEIVABLES

The water and sewer departments record service fees when earned with a corresponding receivable. The City records an allowance for doubtful accounts for all water and sewer receivables which they deem uncollectible. The City determined uncollectible receivables at June 30, 2009 for the water and sewer departments were \$12,463 and \$13,438, respectively.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

RECEIVABLES (Continued)

Loans receivable consist of loans to individuals for housing rehabilitation and to businesses for construction and business loans. The City considers all loans receivable to be collectible.

Taxes receivable consist of various franchise taxes and motel taxes. The City considers all taxes receivable to be collectible.

INTERFUND TRANSACTIONS AND BALANCES

During the course of operations, numerous transactions that constitute reimbursements to a fund for expenditures/expenses initially made from one fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. In addition, on a less occasional basis, the City incurs transactions that constitute quasi-external transactions between funds. These transactions are accounted for as revenues, expenditures or expenses in the funds involved in these transactions.

All other interfund transactions are reported as transfers.

Fund transfers are necessary to properly account for cash increases/decreases in the appropriate funds. Transfers include, but are not limited to, the following:

1. To allocate funds for operations;
2. To allocate funds for equipment replacement;
3. To allocate funds for capital projects.

These transactions result in interfund receivables and payables that are classified as "due from other funds" or "due to other funds" on the Balance Sheet – Governmental Funds and Statement of Net Assets – Proprietary Funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

PREPAID EXPENSES AND DEFERRED CHARGES

Payments made to vendors for services that will benefit the City for periods beyond the current fiscal year are recorded as prepaid expenses.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

RESTRICTED ASSETS

Certain proceeds of debt issues, as well as certain reserves set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

NONCURRENT RECEIVABLES

Noncurrent portions of loans and interest receivable are reported on the governmental funds balance sheet in spite of the spending measurement focus of the governmental funds. As they are not "available spendable resources," noncurrent portions of loans receivable are offset by a reservation of fund balance, and noncurrent portions of interest receivable are offset by a corresponding deferred revenue (other liability) amount.

CAPITAL ASSETS

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at actual historical cost (or fair market value as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	Primarily 30 to 50 years
Improvements	Primarily 10 to 30 years
Equipment	Primarily 5 to 15 years
Vehicles	Primarily 5 to 15 years
Infrastructure	Primarily 15 to 50 years

It is the policy of the City to capitalize all land, buildings, improvements, equipment, vehicles and infrastructure assets, except assets costing less than \$5,000. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

COMPENSATED ABSENCES

Vested or accumulated vacation leave, sick leave and compensatory time are accrued in the proprietary funds and in the government-wide statements as the benefits accrue to employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with accounting principles generally accepted in the United States of America, no liability is recorded for nonvesting accumulated rights to receive sick pay benefits.

DEFERRED REVENUES

Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

LONG-TERM LIABILITIES

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

LONG-TERM LIABILITIES (Continued)

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NET ASSETS/FUND EQUITY

Net assets represent the difference between assets and liabilities. The City's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the City's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from taxes; licenses and permits; fines; forfeitures and penalties; and charges for services. These resources are used for transactions relating to the general operations of the City, and may be used at the discretion of the City Council to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

In the fund financial statements, governmental fund reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances, if any, represent tentative plans for future use of financial resources.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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 the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

PROPERTY TAXES

Property taxes are assessed and collected by Tehama County. The County remits the property taxes to the City when the taxes are collected and the allocation has been determined. Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1, and are payable in two installments and become delinquent if not paid by December 10 and April 10.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Tehama County. The Teeter Plan payment is included in property tax revenue.

CHANGES IN ACCOUNTING PRINCIPLES – POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities in the entity-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expenses and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

CHANGES IN ACCOUNTING PRINCIPLES – POSTEMPLOYMENT
 BENEFITS OTHER THAN PENSIONS
 (Continued)

This Statement provided for prospective implementation – that is that employers set the beginning OPEB obligation at zero as of the beginning of the initial year. The City has implemented the provision of the Statement for the fiscal year ended June 30, 2009. The disclosures required by GASB Statement No. 45 are provided in Note 8.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2009 consisted of the following:

Cash in banks	\$	746,872
State of California – Local Agency Investment Fund (LAIF)		13,382,897
U.S. Bank money market funds:		
First American Treasury Obligation Class D		155,060
U.S. Bank guaranteed investment agreements:		
Berkshire Hathaway Inc., 11/17/94		<u>170,857</u>
Total cash and cash equivalents		<u>\$ 14,455,686</u>

Cash and cash equivalents as of June 30, 2009 are displayed on the government-wide Statement of Net Assets as follows:

Cash and cash equivalents	\$	14,129,769
Restricted cash and cash equivalents		<u>325,917</u>
Total		<u>\$ 14,455,686</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

Custodial credit risk:

This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not address custodial credit risk. As of June 30, 2009, \$654,206 of the City's cash balances in banks were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. The funds in the U.S. Bank First American Treasury Obligation Fund and in the Berkshire Hathaway Inc. guaranteed investment agreement are not subject to custodial credit risk as they are funds under contractual obligation.

Interest Rate Risk:

While the City's investment policy does not address interest rate risk, the City manages its exposure to interest rate risks through reliance on the managers of LAIF.

Equity in Pooled Cash and Investments:

The City invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the City's position in the pool is materially equivalent to the value of pool shares. LAIF is an unrated external investment pool.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2009, 14.71% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. In addition, PMIA's weighted average maturities was 0.614 years at June 30, 2009. (Copies of a report of LAIF's investments may be obtained from the State Treasurer's Office; Local Agency Investment Fund; P. O. Box 942809; Sacramento, CA 94209-0001).

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

Governmental activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Non-depreciable capital assets:					
Land	\$ 305,206	\$ -	\$ -	\$ -	\$ 305,206
Construction in progress	<u>624,996</u>	<u>529,886</u>	<u>-</u>	<u>(1,146,301)</u>	<u>8,581</u>
Non-depreciable capital assets total	<u>930,202</u>	<u>529,886</u>	<u>-</u>	<u>(1,146,301)</u>	<u>313,787</u>
Depreciable capital assets:					
Buildings	1,986,188	-	-	-	1,986,188
Improvements	1,946,539	-	-	761,693	2,708,232
Equipment	1,208,427	27,915	-	232,593	1,468,935
Vehicles	2,814,415	-	128,366	-	2,686,049
Infrastructure	<u>51,904,958</u>	<u>-</u>	<u>-</u>	<u>152,015</u>	<u>52,056,973</u>
	<u>59,860,527</u>	<u>27,915</u>	<u>128,366</u>	<u>1,146,301</u>	<u>60,906,377</u>
Less accumulated depreciation:					
Buildings	1,673,116	19,941	-	-	1,693,057
Improvements	715,460	126,060	-	-	841,520
Equipment	852,314	101,252	-	-	953,566
Vehicles	1,800,049	176,297	59,823	-	1,916,523
Infrastructure	<u>17,785,653</u>	<u>1,301,822</u>	<u>-</u>	<u>-</u>	<u>19,087,475</u>
	<u>22,826,592</u>	<u>1,725,372</u>	<u>59,823</u>	<u>-</u>	<u>24,492,141</u>
Depreciable capital assets, net	<u>37,033,935</u>	<u>(1,697,457)</u>	<u>68,543</u>	<u>1,146,301</u>	<u>36,414,236</u>
Governmental capital assets, net	<u>\$ 37,964,137</u>	<u>\$ (1,167,571)</u>	<u>\$ 68,543</u>	<u>\$ -</u>	<u>\$ 36,728,023</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 59,641
Fire	158,657
Police	78,023
Parks and recreation	98,662
Transportation and streets	<u>1,330,389</u>
Total governmental activities depreciation expense	<u>\$ 1,725,372</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 CAPITAL ASSETS
(Continued)

Business-type activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Non-depreciable capital assets:					
Land	\$ 910,367	\$ -	\$ -	\$ -	\$ 910,367
Construction in progress	<u>95,607</u>	<u>902,206</u>	<u>-</u>	<u>(996,340)</u>	<u>1,473</u>
Non-depreciable capital assets total	<u>1,005,974</u>	<u>902,206</u>	<u>-</u>	<u>(996,340)</u>	<u>911,840</u>
Depreciable capital assets:					
Buildings	1,467,760	-	-	-	1,467,760
Improvements	15,872,290	-	-	996,340	16,868,630
Equipment	884,735	-	-	-	884,735
Vehicles	660,705	-	-	-	660,705
Infrastructure	<u>12,557,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,557,713</u>
	<u>31,443,203</u>	<u>-</u>	<u>-</u>	<u>996,340</u>	<u>32,439,543</u>
Less accumulated depreciation:					
Buildings	1,206,629	13,407	-	-	1,220,036
Improvements	5,986,748	453,771	-	-	6,440,519
Equipment	524,891	59,949	-	-	584,840
Vehicles	493,981	37,914	-	-	531,895
Infrastructure	<u>5,709,045</u>	<u>251,126</u>	<u>-</u>	<u>-</u>	<u>5,960,171</u>
	<u>13,921,294</u>	<u>816,167</u>	<u>-</u>	<u>-</u>	<u>14,737,461</u>
Depreciable capital assets, net	<u>17,521,909</u>	<u>(816,167)</u>	<u>-</u>	<u>996,340</u>	<u>17,702,082</u>
Business-type capital assets, net	<u>\$ 18,527,883</u>	<u>\$ 86,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,613,922</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Building	\$ 6,147
Waste water	415,000
Water	322,525
Airport	68,835
Community center	<u>3,660</u>
Total business-type activities depreciation expense	<u>\$ 816,167</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 LONG-TERM LIABILITIES

ACTIVITY

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital lease liability	\$ <u>147,077</u>	\$ <u>-</u>	\$ <u>34,495</u>	\$ <u>112,582</u>	\$ <u>35,970</u>
Other liabilities:					
Compensated absences	1,112,476	629,981	525,275	1,217,182	304,295
Other postemployment benefits	<u>-</u>	<u>76,667</u>	<u>-</u>	<u>76,667</u>	<u>-</u>
Total other liabilities	<u>1,112,476</u>	<u>706,648</u>	<u>525,275</u>	<u>1,293,849</u>	<u>304,295</u>
Total governmental activities	<u>1,259,553</u>	<u>706,648</u>	<u>559,770</u>	\$ <u>1,406,431</u>	<u>340,265</u>
Business-type activities:					
Revenue bonds and loans payable:					
Revenue Bonds	455,000	-	140,000	315,000	150,000
State Revolving Loan Fund	1,529,910	-	115,339	1,414,571	117,418
USDA Loan	2,073,271	-	38,000	2,035,271	39,000
CIEDB Loan	<u>3,720,624</u>	<u>-</u>	<u>95,582</u>	<u>3,625,042</u>	<u>98,517</u>
	<u>7,778,805</u>	<u>-</u>	<u>388,921</u>	<u>7,389,884</u>	<u>404,935</u>
Other Liabilities:					
Compensated absences	<u>211,898</u>	<u>137,922</u>	<u>108,621</u>	<u>241,199</u>	<u>60,299</u>
Total business-type activities	<u>7,990,703</u>	<u>137,922</u>	<u>497,542</u>	<u>7,631,083</u>	<u>465,234</u>
Total long-term liabilities	\$ <u>9,250,256</u>	\$ <u>844,570</u>	\$ <u>1,057,312</u>	\$ <u>9,037,514</u>	\$ <u>805,499</u>

CAPITAL LEASE

On February 24, 2006, the City entered into a capital lease for the purchase of a fire truck with a cost of \$342,319 and accumulated depreciation of \$83,678 as of June 30, 2009. The lease is payable in annual installments of \$40,777, including interest at 4.2%, and is due on or before February 2012. Total remaining payments under the lease are \$122,331, including interest in the amount of \$9,748. The present value of the remaining payments is \$112,582. Amortization of leased assets is included with depreciation expense.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 LONG-TERM LIABILITIES
(Continued)

REVENUE BONDS

On October 1, 1994, the California Local Government Financing Authority (Authority) issued \$6,570,000 in Water and Sewer Revenue Bonds to facilitate the financing of water and sewer system construction for smaller local governments. The City participated in this issuance by executing an Installment Purchase Contract with the Authority to the extent that revenue bond proceeds amounting to \$1,400,000 became available to the City of Red Bluff for construction projects. The City's portion of the revenue bond liability originally totaled \$1,615,000, which included reserve funds and underwriting fees and costs.

Payments on the bonds are due semi-annually each January 1st and July 1st through the year 2010. The interest rates on the bonds vary from 5 to 7.4 percent.

The bonds are collateralized by a pledge of revenues derived and to be derived from the operation of the water supply and sewer systems after deductions of amounts necessary to pay all operating and maintenance charges of those systems. Principal and interest paid in the current year was \$168,845, while total pledged system revenues were \$1,751,573. Total principal and interest remaining on the bonds is \$340,034, which is the amount of the remaining system revenues pledged.

LOANS

State Revolving Fund Loan

During the year ended June 30, 1999, the City Council authorized the upgrade and expansion of the waste water treatment plant and granted the authority to apply for and accept a state revolving fund loan to fund a portion of that expansion. A loan of \$2,902,104 was approved by the State Revolving Fund Loan Program which is administered for the State of California by the State Water Resources Control Board. The loan amount is to be repaid in full no later than 20 years after the completion of construction. Project construction was completed on September 2, 1999. Repayment in 20 annual installments began on September 2, 2000. The disbursement of the loan proceeds was handled in a manner similar to a line of credit. The total disbursements under the loan amounted to \$2,382,042. The effective interest rate on the loan is 1.8%.

The loan is collateralized by a pledge of revenues derived and to be derived from the monthly user charges of the wastewater system, as dedicated by City resolution.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 LONG-TERM LIABILITIES
(Continued)

LOANS (Continued)

Principal and interest paid in the current year was \$142,923, while total pledged system revenues were \$2,194,460. Total principal and interest remaining on the bonds is \$1,572,153, which is the amount of the remaining dedicated source of revenues pledged.

USDA Loan

As part of the waste water treatment plant upgrade and expansion the City Council also granted the authority to apply for and accept a loan from the U.S. Department of Agriculture. A loan of \$2,335,530 was approved upon the completion of the waste water treatment plant by the Water and Waste Disposal Systems for Rural Communities Program. The Program is administered by Rural Development, an agency of the U.S. Department of Agriculture. Repayment in 40 annual installments began on November 1, 2000. The effective interest rate on the loan is 3.25% with interest payments due semi-annually each May 1st and November 1st.

CIEDB Loan

During the year ended June 30, 2006, the City Council authorized the upgrade of the water system to include a three million gallon water tank and granted the authority to apply for and accept a loan from the California Infrastructure and Economic Development Bank to fund the upgrade. A loan of \$3,941,700 was approved by the California Infrastructure and Economic Development Bank. The loan amount is to be repaid over a 30 year period from the effective date of the loan which was July 20, 2004. The loan called for semi-annual payments of interest only through February 1, 2006. Effective August 1, 2006, the loan calls for semi-annual payments of interest, each February 1st and August 1st, and annual payments of principal each August 1st, with the first principal payment due on August 1, 2006. The effective interest rate on the loan is 3.07%. The disbursement of the loan proceeds were handled in a manner similar to a line of credit. Total disbursements under the loan amounted to \$3,941,700.

The loan is collateralized by a pledge of revenues derived and to be derived from the operation of the water enterprise system after deductions of amounts necessary to pay all operating and maintenance charges of the system, including interest earned on amounts deposited within the enterprise fund. Principal and interest paid in the current year was \$208,338, while total pledged system revenues were \$1,105,072. Total principal and interest remaining on the bonds is \$5,189,492, which is the amount of the remaining system revenues pledged.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 LONG-TERM LIABILITIES
(Continued)

LONG-TERM DEBT SUMMARY

Year Ended June 30,	Principal	Interest	Total
2010	\$ 440,905	\$ 224,095	\$ 665,000
2011	463,581	204,150	667,731
2012	307,457	189,345	496,802
2013	274,757	180,839	455,596
2014	281,301	173,830	455,131
2015 – 2019	1,518,793	757,133	2,275,926
2020 – 2024	1,136,095	566,533	1,702,628
2025 – 2029	1,160,377	396,098	1,556,475
2030 – 2034	1,352,929	200,262	1,553,191
2035 – 2039	465,000	55,254	520,254
2040	101,271	1,650	102,921
Total	\$ <u>7,502,466</u>	\$ <u>2,949,189</u>	\$ <u>10,451,655</u>

INTEREST EXPENSE

The total interest incurred for the year ended June 30, 2009 was \$244,343. Interest charged to expense has been included as a component of the direct expenses of individual functions on the government-wide statement of activities as the underlying debt has objectives that can be connected to specific programs.

OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2009. The City's actuarially determined annual required contribution for the year ended June 30, 2009, was \$94,216, and contributions made by the City during the year were \$17,549, which resulted in a net OPEB obligation of \$76,667. See Note 8 for additional information regarding the OPEB obligation and the postemployment benefit plan.

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CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 SELF-INSURANCE

In January, 1979, the City became a member of the Northern California Cities Workers' Compensation Fund, a Joint Powers Authority (JPA), for the purpose of providing a banking plan for member cities to provide their own workers' compensation insurance. In July, 1981, the JPA instituted a program for the provision of liability insurance. In 1987 the JPA was rewritten and renamed the Northern California Cities Self Insurance Fund to combine and update the coverages of the plans. There has been no significant reduction in any of the insurance coverages from the prior year. Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years. The current agreement is as follows:

The Workers' Compensation Program comprises a banking or deductible layer for claims up to \$100,000 and a shared risk pool for claims from \$100,000 to \$500,000. Excess coverage is provided for claims over the shared risk layer up to the statutory limit. The liability program comprises a banking or deductible layer for claims up to \$25,000 (except employment practices liability which is \$50,000) and a shared risk pool for claims from \$25,000 (or \$50,000) to \$500,000. Excess coverage is provided for claims over the shared risk layer up to \$40,000,000.

Each member city is assessed a contribution which is intended to cover its share of the Authority's claims, operating costs and claim settlement expenses. Contributions are based on an actuarially determined rate for each coverage layer (pool), based on an estimate of the probable losses and expenses to be borne by that pool for the claim year. Additional cash contributions may be assessed on the basis of adverse loss experience. Refunds to members may be made if funds are determined to be surplus as a result of an actuarial study.

The banking or deductible layer is the member's deductible portion of each claim. As part of its services to members, a portion of the members' contributions is used to pay their deductibles. If a member's balance is insufficient, the Authority advances the necessary amounts and bills the member in the following year. Excess balances may likewise be used to offset subsequent year contributions.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 SELF-INSURANCE
(Continued)

The City of Red Bluff uses the "general fund" method to account for the costs of self-insurance. While the ultimate amount of the costs of self-insurance through June 30, 2009 is dependent on future developments, City management believes that the aggregate premiums paid to the JPA are adequate to cover the City's losses through June 30, 2009, including incurred but not reported claims (IBNRs). Claims paid for the workers' compensation and general liability programs for the fiscal year ended June 30, 2009 were \$512,855 and \$53,433, respectively.

It is the City's policy not to record the fluctuations in its banking layer. As of June 30, 2009, the City had recorded a liability in its funds for anticipated workers' compensation claims in the amount of \$21,269 while the JPA reported that the City has a surplus in its workers' compensation program in the amount of \$62,994. In addition, the City had not recorded a liability for general liability claims in its funds while the JPA reported that the City had a surplus of \$283,239 for its general liability program.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

INTERFUND BALANCES

The following is a summary of interfund balances as of June 30, 2009:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Internal Balances</u>
Governmental activities:			
General	\$ 1,226,576	\$ 240,280	\$ 986,296
Transportation	-	-	-
Grants	957	-	957
Other governmental	<u>-</u>	<u>272,522</u>	<u>(272,522)</u>
Total governmental activities	<u>1,227,533</u>	<u>512,802</u>	<u>714,731</u>
Business-type activities:			
Waste water	72,219	99,224	(27,005)
Water	75,779	69,428	6,351
Airport	18,326	575,585	(557,259)
Other enterprise	<u>-</u>	<u>136,818</u>	<u>(136,818)</u>
Total business-type activities	<u>166,324</u>	<u>881,055</u>	<u>(714,731)</u>
Total government-wide statement	\$ <u>1,393,857</u>	\$ <u>1,393,857</u>	\$ <u>-</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
(Continued)

TRANSFERS

The following is a summary of transfers for the year ended June 30, 2009:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Net Transfers</u>
Governmental activities:			
General	\$ 6,003,932	\$ 5,685,528	\$ 318,404
Transportation	1,031,230	-	1,031,230
Grants	-	-	-
Other governmental	<u>4,474</u>	<u>945,004</u>	<u>(940,530)</u>
Total governmental activities	<u>7,039,636</u>	<u>6,630,532</u>	<u>409,104</u>
Business-type activities:			
Waste water	-	205,992	(205,992)
Water	-	287,496	(287,496)
Airport	-	109,518	(109,518)
Other enterprise	<u>226,237</u>	<u>32,335</u>	<u>193,902</u>
Total business-type activities	<u>226,237</u>	<u>635,341</u>	<u>(409,104)</u>
Total government-wide statement	\$ <u>7,265,873</u>	\$ <u>7,265,873</u>	\$ <u> -</u>

The City's routine transfers include transfers made to move (a) unrestricted revenues or balances that have been collected or accumulated in the General Fund to other funds based on budgetary authorization, and (b) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them. All transfers during the year were routine and all balances are expected to be collected in the subsequent year.

NOTE 7 RETIREMENT PLAN

PERS funding progress information for the City of Red Bluff has been consolidated by PERS with other cities with less than 100 employees. Therefore, this information is not available solely for the City's funding progress and thus has not been presented in these financial statements.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 RETIREMENT PLAN
(Continued)

A. Plan Descriptions

The City of Red Bluff contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 5.612% for miscellaneous employees, 21.281% for safety fire plan employees and 36.421% for safety police plan employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

C. Annual Pension Cost

For the fiscal year ended June 30, 2009, the City's annual pension cost of \$851,172 was equal to the City's actual and required contributions. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.25% to 14.45% for miscellaneous employees and safety employees. Both (a) and (b) include an inflation component of 3.0% and a payroll growth component of 3.25%. The actuarial value of PERS' assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a 30 year period. The amortization method is the Level Percent of Payroll method. The amortization period is a closed period and varies between the different plans of the City. For the fiscal year ended June 30, 2009, the amortization periods were 13, 14 and 11 years for the miscellaneous, the safety police and the safety fire plans, respectively.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 RETIREMENT PLAN
(Continued)

C. Annual Pension Cost (Continued)

THREE-YEAR TREND INFORMATION FOR PERS

Miscellaneous Plan

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$ 140,195	100 %	\$ -
6/30/08	\$ 155,957	100 %	\$ -
6/30/09	\$ 166,925	100 %	\$ -

Safety Fire Plan

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$ 132,281	100 %	\$ -
6/30/08	\$ 139,286	100 %	\$ -
6/30/09	\$ 147,612	100 %	\$ -

Safety Police Plan

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$ 442,722	100 %	\$ -
6/30/08	\$ 471,537	100 %	\$ -
6/30/09	\$ 536,635	100 %	\$ -

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the City.

A. Plan Description

The City of Red Bluff Retirement Health Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the City. The City provides certain medical, dental, and vision insurance coverage to all employees who retire from the City and meet the age and service requirement for eligibility. Benefits are provided from age 55 to 65. The City pays 100% of the eligible retirees' medical plan premiums up to a cap which ranges by bargaining unit from \$120 to \$160 per month. As of June 30, 2009, membership of the Plan consists of 11 retirees currently receiving benefits and 113 eligible active plan members.

B. Funding Policy

The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2009, the City paid \$17,549 on behalf of its retirees.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation to the Plan.

Annual required contribution (ARC)	\$ 94,216
Contributions made	<u>17,549</u>
Increase in net OPEB obligation	76,667
Net OPEB obligation, beginning of the year	<u>-</u>
Net OPEB obligation, end of year	\$ <u><u>76,667</u></u>

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2009 is as follows (since this is the first year of implementation, only the current year information is presented):

Annual OPEB cost	\$	94,216
Percentage of annual OPEB costs contributed		18.63%
Net OPEB obligation	\$	76,667

D. Funded Status Information

The City's funding status information is illustrated as follows:

Actuarial valuation date		December 1, 2007
Actuarial accrued liability (AAL)	\$	946,380
Actuarial value of plan assets	\$	-
Unfunded AAL (UAAL)	\$	946,380
Funded ratio		0.0%
Covered payroll	\$	5,940,502
UAAL as percentage of covered payroll		15.93%

As of June 30, 2009, the City has not set aside any amounts in an external trust fund.

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 (Continued)

E. Actuarial Methods and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 1, 2007 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5.0% discount rate, a 3.0% price inflation, a 3.0% wage inflation, and an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

NOTE 9 DEFICIT FUND BALANCES/RETAINED EARNINGS

At June 30, 2009, the funds listed below reported deficit fund balances or retained earnings:

<u>Fund</u>	<u>Amount</u>
Business-type funds:	
Community Center	\$ 24,007

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10 LANDFILL JOINT POWERS AGENCIES

The City of Red Bluff is a member of the Tehama County Sanitary Landfill Agency (Landfill Agency), which was formed in May 1989 by an agreement between the County of Tehama, the City of Corning, the City of Tehama and the City of Red Bluff. The Landfill Agency is responsible for closure and postclosure of the landfill. The Landfill Agency has previously collected assessments from property in the County and is currently holding those funds in order to have funds available to finance the work necessary for closure and postclosure monitoring.

In 1997, the City of Red Bluff, along with the County of Tehama, formed the Tehama County/Red Bluff Landfill Management Agency (Management Agency). The Management Agency was formed to govern the operation and management of the landfill. The City of Red Bluff and the County of Tehama each have a 50% ownership interest in the landfill.

Complete financial statements for the two Agencies may be obtained from the Agencies.

NOTE 11 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is involved in various litigation; however, in the City Attorney's opinion, the potential claims against the City resulting from such litigation would not materially affect the accompanying financial statements.

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CITY OF RED BLUFF
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant/Project Number	Expenditures
<u>U. S. Department of Housing and Urban Development:</u>			
Pass-through from the State of California Department of Housing and Community Development: Community Development Block Grant (State's Program)	14.228	08-HOME-4699	\$ 75,225
Total Department of Housing and Urban Development			<u>75,225</u>
<u>Rural Business-Cooperative Service, Department of Agriculture:</u>			
Business Façade Improvements	10.769	03488-0039	8,757
Total Rural Business-Cooperative Service, Department of Agriculture			<u>8,757</u>
<u>Federal Aviation Administration:</u>			
Airport Improvement Grant Program	20.106	03-06-0193-09	894,431
Total Federal Aviation Administration			<u>894,431</u>
<u>Department of Homeland Security:</u>			
2008 Assistance to Firefighters Grant Program	97.044	EMV-2008-FO-04872	27,915
Total Department of Homeland Security			<u>27,915</u>
Total Federal Expenditures			<u>\$ 1,006,328</u>

Note: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. In addition, the amounts shown as expenditures above constitute all expenditures under the respective programs and thus include local match expenditures.

INDEPENDENT AUDITORS' 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

Honorable Mayor and City Council
City of Red Bluff, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bluff, California, as of and for the year ended June 30, 2009, which collectively comprise the City of Red Bluff's basic financial statements, and have issued our report thereon dated May 7, 2010. 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 City of Red Bluff's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Red Bluff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Red Bluff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City of Red Bluff's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Red Bluff's financial statements that is more than inconsequential will not be prevented or detected by the City of Red Bluff's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Red Bluff's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Bluff'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we reported to management of the City of Red Bluff in a separate letter dated May 7, 2010.

The City of Red Bluff's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Red Bluff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

May 7, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Red Bluff, California

Compliance

We have audited the compliance of the City of Red Bluff, California with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Red Bluff's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Red Bluff's management. Our responsibility is to express an opinion on the City of Red Bluff's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Red Bluff's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Red Bluff's compliance with those requirements.

As described in item 2009-2 in the accompanying schedule of findings and questioned costs, the City of Red Bluff did not comply with requirements regarding allowable costs that are applicable to its Airport Improvement Program Grant. Compliance with such requirements is necessary, in our opinion, for the City of Red Bluff to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Red Bluff complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Red Bluff is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Red Bluff's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Red Bluff's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Red Bluff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

May 7, 2010

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of the City of Red Bluff.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' 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*. The significant deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Red Bluff, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for the City of Red Bluff expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was the Airport Improvement Program (CFDA No. 20.106).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Red Bluff did not qualify as a low-risk auditee.

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2009-1 – Audit Adjustments

Condition: During our audit of the current year, we noted several adjustments that were material to the financial statements in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the City's internal control.

Criteria: All adjustments necessary for financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles should be identified and posted by the City.

Effect: Financial statements which are not in conformity with generally accepted accounting principles could have been prepared and distributed.

Recommendation: We recommend that management take steps to ensure that all adjustments necessary to prepare financial statements in conformity with generally accepted accounting principles be identified and posted prior to the start of the audit.

Response: The City of Red Bluff generally agrees with the findings, criteria, effects and recommendations in the Schedule of Findings and Questioned costs. Prior to the implementation of new auditing standards, these same comments were received and not consider a finding in the financial statements audit or a significant deficiency. Due to the changes in Government Auditing Standards it is now considered a significant deficiency.

Staff has and will continue to identify and post all necessary adjustments prior to delivering the final trial balances that are required to be made in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. Additional review steps and checklists will be added to the financial statements to ensure that all adjustments necessary for financial statements are posted to the final trial balances.

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Questioned
Costs

**Federal Aviation Administration
Airport Improvement Grant – CFDA No. 20.106
Grant No. 03-06-0193-09**

2009-2 – Allowable Costs

Condition: During the audit of the current year for the Airport Improvement Program Grant, we noted that the City had charged personnel costs to the grant using actual hours worked multiplied by payroll rates (with payroll overhead) from 1992 that had been increased by CPI changes over the 16 year period rather than actual, direct costs of those employees.

Criteria: Only actual, direct costs or indirect costs under an approved indirect cost allocation plan are to be charged to federal grants.

Effect: Expenditures charged under the grants were overstated.

\$ -

Cause: This occurred because the prior year finding had not yet been presented to the City. Subsequent to the identification of the prior year finding 2008-3, the City changed its process for charging payroll to grants to actual costs and revised all costs submitted for the current year grant.

Recommendation: We recommend that City verify that all future payroll costs charged to federal grants be limited to either actual, direct costs or indirect costs approved under an indirect cost allocation plan.

Response: Staff agrees that all future payroll costs charged to federal grants should be limited to actual, direct costs until indirect costs are updated under an approved indirect cost allocation plan.

CITY OF RED BLUFF
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

FINDINGS – FINANCIAL STATEMENTS AUDIT

2008-1 – Audit Adjustments

Condition: In the prior year, we were required to record several adjustments that were material to the financial statements in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the City's internal control.

Recommendation: We recommended that management take steps to ensure that all adjustments necessary to prepare financial statements in conformity with generally accepted accounting principles be identified and posted prior to the start of the audit.

Status: See current year finding 2009-1.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Department of Homeland Security
2007 Assistance to Firefighters Grant Program – CFDA No. 97.044
Grant No. EMV-2007-FR-00183

2008-2 – Procurement, Suspension and Debarment

Condition: During our audit of the prior year, we noted that the City did not review the suspension and debarment listing for vendors utilized under the grant before purchasing items from those vendors.

Recommendation: We recommended that management take steps to ensure that all vendors utilized by the City for federal grant expenditures in excess of \$25,000 are eligible by reviewing the suspension and debarment list.

Status: During our audit of the current year, we noted that the City has implemented procedures to ensure all vendors utilized are not suspended or debarred.

CITY OF RED BLUFF
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)

Federal Aviation Administration
Airport Improvement Grant – CFDA No. 20.106
Grant Nos. 03-06-0193-07 and 03-06-0193-08

2008-3 – Allowable Costs

Condition: During the audit of the prior year for the Airport Improvement Program Grants, we noted that the City had charged personnel costs to the grants using actual hours worked multiplied by payroll rates (with payroll overhead) from 1992 that had been increased by CPI changes over the 16 year period rather than actual, direct costs of those employees.

Recommendation: We recommended that City verify that all future payroll costs charged to federal grants be limited to either actual, direct costs or indirect costs approved under an indirect cost allocation plan.

Status: See current year finding 2009-2.