

CITY OF RED BLUFF
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

CITY OF RED BLUFF
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CITY OF RED BLUFF
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2010

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, 2010, 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, 2010, 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 June 9, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Nystrom & Company LLP

June 9, 2011

CITY OF RED BLUFF
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

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, 2010.

FINANCIAL HIGHLIGHTS

The assets of the City of Red Bluff exceeded its liabilities at the close of the most recent fiscal year by \$65,615,870 (net assets). Of this amount, \$11,604,592 (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 decreased by \$1,010,687.

As of the close of the current fiscal year, the City of Red Bluff's governmental activities reported combined total net assets of \$43,883,659. Of this amount \$712,231 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 \$93,990 or 1.24% of the total General Fund expenditure.

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 12 through 14 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 27 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 24 funds are combined into a single, aggregated presentation.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

The basic governmental fund financial statements can be found on pages 15 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 and Waste Water Funds since both are considered to be major funds of the City. Data from the other four 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 56 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 \$65,615,870 as of June 30, 2010.

The largest portion of the City's net assets (70%) 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, 2010

The following table provides a summary of the City's Net Assets for the years ended June 30, 2010 and 2009.

CITY OF RED BLUFF'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ASSETS						
Current and other assets	\$ 10,648,478	\$ 10,967,522	\$ 11,492,504	\$ 10,453,081	\$ 22,140,982	\$ 21,420,603
Capital assets	<u>35,091,522</u>	<u>36,728,023</u>	<u>17,824,799</u>	<u>18,613,922</u>	<u>52,916,321</u>	<u>55,341,945</u>
Total assets	<u>45,740,000</u>	<u>47,695,545</u>	<u>29,317,303</u>	<u>29,067,003</u>	<u>75,057,303</u>	<u>76,762,548</u>
LIABILITIES						
Long-term liabilities	1,301,874	1,406,431	7,181,243	7,631,083	8,483,117	9,037,514
Other liabilities	<u>554,467</u>	<u>727,920</u>	<u>403,849</u>	<u>370,557</u>	<u>958,316</u>	<u>1,098,477</u>
Total liabilities	<u>1,856,341</u>	<u>2,134,351</u>	<u>7,585,092</u>	<u>8,001,640</u>	<u>9,441,433</u>	<u>10,135,991</u>
NET ASSETS						
Invested in capital assets, net of related debt	35,014,910	36,615,441	10,839,850	11,224,038	45,854,760	47,839,479
Restricted	8,156,518	7,627,082	-	-	8,156,518	7,627,082
Unrestricted	<u>712,231</u>	<u>1,318,671</u>	<u>10,892,361</u>	<u>9,841,325</u>	<u>11,604,592</u>	<u>11,159,996</u>
Total net assets	\$ <u>43,883,659</u>	\$ <u>45,561,194</u>	\$ <u>21,732,211</u>	\$ <u>21,065,363</u>	\$ <u>65,615,870</u>	\$ <u>66,626,557</u>

An additional portion of the City's net assets (12.43%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$11,604,592 may be used to meet the government's ongoing obligation to citizens and creditors.

As of June 30, 2010, 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, 2010 and 2009.

CITY OF RED BLUFF

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

CITY OF RED BLUFF'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 541,829	\$ 660,980	\$ 4,556,522	4,827,614	\$ 5,098,351	5,488,594
Operating grants and contributions	1,248,148	1,439,100	77,914	91,288	1,326,062	1,530,388
Capital grants and contributions	292,130	382,270	5,598	903,638	297,728	1,285,908
General Revenues:						
Sales taxes	2,328,891	2,703,311	-	-	2,328,891	2,703,311
Property taxes	1,462,204	1,544,955	63,666	56,410	1,525,870	1,601,365
Motel taxes	555,234	562,008	-	-	555,234	562,008
Special gas taxes	231,350	232,617	-	-	231,350	232,617
Franchise taxes	223,635	246,214	-	-	223,635	246,214
Other taxes	232,246	268,152	-	-	232,246	268,152
Motor vehicle license fees	1,037,000	1,101,409	-	-	1,037,000	1,101,409
Impact fees	123,586	181,331	-	-	123,586	181,331
Gain/(Loss) on sale of assets	8,766	(68,543)	-	-	8,766	(68,543)
Investment earnings	150,343	186,576	70,082	156,799	220,425	343,375
Total revenues	<u>8,435,362</u>	<u>9,440,380</u>	<u>4,773,782</u>	<u>6,035,749</u>	<u>13,209,144</u>	<u>15,476,129</u>
Expenses:						
General government:						
City administration	380,284	458,924	-	-	380,284	458,924
Finance	434,417	446,742	-	-	434,417	446,742
Community promotion and economic development	109,490	132,541	-	-	109,490	132,541
Human resources	176,027	195,398	-	-	176,027	195,398
Engineering and administration	226,142	367,083	-	-	226,142	367,083
Government buildings	132,928	132,983	-	-	132,928	132,983
General government	182,391	163,055	-	-	182,391	163,055
Public safety:						
Fire	1,852,232	2,104,130	-	-	1,852,232	2,104,130
Police	3,947,641	4,223,961	-	-	3,947,641	4,223,961
Parks and recreation	533,155	600,549	-	-	533,155	600,549
Transportation and streets	2,016,520	2,198,789	-	-	2,016,520	2,198,789
Senior nutrition program	293,341	312,929	-	-	293,341	312,929
Grants and program income	258,987	147,136	-	-	258,987	147,136
Building	-	-	260,067	273,459	260,067	273,459
Planning	-	-	132,264	208,447	132,264	208,447
Waste water	-	-	1,556,988	1,547,524	1,556,988	1,547,524
Water	-	-	1,310,841	1,294,398	1,310,841	1,294,398
Airport	-	-	166,101	180,926	166,101	180,926
Community center	-	-	250,015	257,441	250,015	257,441
Total expenses	<u>10,543,555</u>	<u>11,484,220</u>	<u>3,676,276</u>	<u>3,762,195</u>	<u>14,219,831</u>	<u>15,246,415</u>
Excess (deficiency) before transfers	(2,108,193)	(2,043,840)	1,097,506	2,273,554	(1,010,687)	229,714
Transfers	430,658	409,104	(430,658)	(409,104)	-	-
Increase in net assets	(1,677,535)	(1,634,736)	666,848	1,864,450	(1,010,687)	229,714
Net assets, beg. of year	<u>45,561,194</u>	<u>47,195,930</u>	<u>21,065,363</u>	<u>19,200,913</u>	<u>66,626,557</u>	<u>66,396,843</u>
Net assets, end of year	\$ <u>43,883,659</u>	\$ <u>45,561,194</u>	\$ <u>21,732,211</u>	\$ <u>21,065,363</u>	\$ <u>65,615,870</u>	\$ <u>66,626,557</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 \$9,526,686. Approximately 57% of this total amount (\$5,447,868) 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 (\$4,078,818).

In the General Fund, the City budgeted for a reduction in the fund balance of \$875,835 which was a result of authorized budgeted expenditures exceeding appropriations. Actual revenues were \$6,497,879 with final budget being \$6,367,431 with a favorable variance of \$130,448 and actual expenditures being more than budgeted expenditures with an unfavorable variance of \$240,548.

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 \$5,195,093 and Water Fund \$5,360,297. All Other Enterprise Funds had unrestricted net assets in 2010 of \$336,971.

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 approximately 2% or \$143,237. Overall, authorized General Fund expenditures for fire public safety, police public safety, parks and recreation departments were over budget. However, General Fund expenditures for general government were under budget.

The City's total budgeted revenue remained at \$6,367,431. The increase in total revenue over the final budgeted amount was due to the receipt of the following revenue items: Federal Emergency Management Association Assistance to Firefighter's Grant, United States Department of Justice Edward Byrne Memorial Justice Assistance Grants, United States Department of Forestry payment for use of the City's fire crew, and a donation to the McGlynn pool.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

CAPITAL ASSETS

The City of Red Bluff's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$52,916,321 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, vehicles, and construction in progress.

There were no major capital asset events during the current fiscal year.

CAPITAL ASSETS AT YEAR-END NET OF ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 305,206	\$ 305,206	\$ 910,367	\$ 910,367	\$ 1,215,573	\$ 1,215,573
Buildings	273,190	293,131	234,358	247,724	507,548	540,855
Improvements	1,736,019	1,866,712	9,992,955	10,428,111	11,728,974	12,294,823
Equipment	398,132	515,369	241,568	299,895	639,700	815,264
Vehicles	690,292	769,526	97,980	128,810	788,272	898,336
Infrastructure	31,680,102	32,969,498	6,347,570	6,597,542	38,027,672	39,567,040
Construction in progress	8,581	8,581	-	1,473	8,581	10,054
Total	\$ 35,091,522	\$ 36,728,023	\$ 17,824,798	\$ 18,613,922	\$ 52,916,320	\$ 55,341,945

Additional information on the City of Red Bluff's capital assets can be found in Note 3 on pages 39 and 40 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 \$7,061,561. 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 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.

CITY OF RED BLUFF

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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>2010</u>	<u>2009</u>
Revenue bonds payable	\$ 165,000	\$ 315,000
Notes payable	<u>6,819,949</u>	<u>7,074,884</u>
Total	\$ <u>6,984,949</u>	\$ <u>7,389,884</u>

ECONOMIC FACTORS INFLUENCING NEXT YEAR'S BUDGETS

City Management recommended and the City Council considered several important factors in adopting the 2010-11 budget, which includes:

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

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with 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, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,121,846	\$ 10,251,458	\$ 15,373,304
Receivables:			
Taxes	147,183	-	147,183
Accounts, net	18,931	882,872	901,803
Interest	567,325	-	567,325
Due from other governments	802,424	81,826	884,250
Prepaid expenses and deferred charges	-	17,442	17,442
Internal balances	(88,049)	88,049	-
Restricted assets:			
Cash and cash equivalents	-	170,857	170,857
Loans receivable	4,078,818	-	4,078,818
Non-depreciable capital assets	313,787	910,368	1,224,155
Depreciable capital assets, net	34,777,735	16,914,431	51,692,166
	<u>\$ 45,740,000</u>	<u>\$ 29,317,303</u>	<u>\$ 75,057,303</u>
LIABILITIES			
Accounts payable	\$ 175,223	\$ 149,361	\$ 324,584
Accrued interest payable	-	101,564	101,564
Accrued payroll and benefits	365,463	41,277	406,740
Customer/employee deposits	1,511	110,512	112,023
Other liabilities	12,270	1,135	13,405
Long-term liabilities:			
Due within one year	301,818	475,255	777,073
Due in more than one year	1,000,056	6,705,988	7,706,044
	<u>1,856,341</u>	<u>7,585,092</u>	<u>9,441,433</u>
NET ASSETS			
Investment in capital assets, net of related debt	35,014,910	10,839,850	45,854,760
Restricted for:			
Grant programs	3,934,994	-	3,934,994
Impact fee development	2,494,944	-	2,494,944
Transportation	1,170,238	-	1,170,238
Other	556,342	-	556,342
Unrestricted	712,231	10,892,361	11,604,592
	<u>43,883,659</u>	<u>21,732,211</u>	<u>65,615,870</u>
Total net assets	<u>\$ 45,740,000</u>	<u>\$ 29,317,303</u>	<u>\$ 75,057,303</u>
Total liabilities and net assets	<u>\$ 45,740,000</u>	<u>\$ 29,317,303</u>	<u>\$ 75,057,303</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, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General government:				
City administration	\$ 380,284	-	-	\$ (380,284)
Finance	434,417	-	-	(434,417)
Community promotion and economic development	109,490	-	-	(109,490)
Human resources	176,027	-	-	(176,027)
Engineering and administration	226,142	-	-	(226,142)
Government buildings	132,928	-	-	(132,928)
General government	182,391	333,813	30	151,452
Public safety:				
Fire	1,852,232	13,100	55,265	(1,762,313)
Police	3,947,641	102,519	271,916	(3,469,312)
Parks and recreation	533,155	85,332	25,000	(422,823)
Transportation and streets	2,016,520	-	294,463	(1,722,057)
Senior nutrition program	293,341	-	295,817	2,476
Grants and program income	258,987	7,065	305,657	220,417
Total governmental activities	10,543,555	541,829	1,248,148	(8,461,448)
Business-type activities:				
Building	260,067	252,831	-	(7,236)
Planning	132,264	58,387	-	(73,877)
Waste water	1,556,988	2,109,942	-	552,954
Water	1,310,841	1,960,408	-	649,567
Airport	166,101	96,501	-	(64,002)
Community Center	250,015	78,453	77,914	(93,648)
Total business-type activities	3,676,276	4,556,522	77,914	963,758
Total primary government	\$ 14,219,831	\$ 5,098,351	\$ 1,326,062	\$ (7,497,690)

(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, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Change in net assets:			
Net (expense)/revenue	<u>\$ (8,461,448)</u>	<u>\$ 963,758</u>	<u>\$ (7,497,690)</u>
General revenues and transfers:			
General revenues:			
Taxes:			
Sales taxes	2,328,891	-	2,328,891
Property taxes	1,462,204	63,666	1,525,870
Motel taxes	555,234	-	555,234
Special gas taxes	231,350	-	231,350
Franchise taxes	223,635	-	223,635
Other taxes	232,246	-	232,246
Motor vehicle license fees	1,037,000	-	1,037,000
Impact fees	123,586	-	123,586
Investment earnings	150,343	70,082	220,425
Gain on sale of assets	8,766	-	8,766
Transfers	<u>430,658</u>	<u>(430,658)</u>	<u>-</u>
Total general revenues and transfers	<u>6,783,913</u>	<u>(296,910)</u>	<u>6,487,003</u>
Change in net assets	<u>(1,677,535)</u>	<u>666,848</u>	<u>(1,010,687)</u>
Net assets, beginning of year, as originally reported	45,333,913	21,065,363	66,399,276
Prior period adjustment	<u>227,281</u>	<u>-</u>	<u>227,281</u>
Net assets, beginning of year, as restated	<u>45,561,194</u>	<u>21,065,363</u>	<u>66,626,557</u>
Net assets, end of year	<u><u>\$ 43,883,659</u></u>	<u><u>\$ 21,732,211</u></u>	<u><u>\$ 65,615,870</u></u>

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

CITY OF RED BLUFF
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2010

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 13,190	\$ 680,300	\$ 248,001	\$ 4,180,355	\$ 5,121,846
Receivables:					
Taxes	119,475	27,708	-	-	147,183
Accounts	11,338	435	113	7,047	18,933
Interest	-	-	529,561	37,764	567,325
Loans	-	-	3,616,453	462,365	4,078,818
Due from other governments	533,027	34,622	75,138	159,637	802,424
Due from other funds	78,465	60,321	-	-	138,786
Total assets	\$ 755,495	\$ 803,386	\$ 4,469,266	\$ 4,847,168	\$ 10,875,315
LIABILITIES					
Accounts payable	\$ 122,757	\$ 29,891	\$ 4,709	\$ 17,866	\$ 175,223
Accrued payroll and benefits	348,017	11,228	-	6,218	365,463
Customer/employee deposits	1,511	-	-	-	1,511
Other liabilities	10,755	-	529,563	39,279	579,597
Due to other funds	78,465	-	-	148,370	226,835
Total liabilities	561,505	41,119	534,272	211,733	1,348,629
FUND BALANCES					
Reserved for loans receivable	-	-	3,616,453	462,365	4,078,818
Unreserved:					
Designated for contingency	100,000	-	-	-	100,000
Undesignated, reported in:					
General fund	93,990	-	-	-	93,990
Special revenue funds	-	762,267	318,541	4,173,070	5,253,878
Total fund balances	193,990	762,267	3,934,994	4,635,435	9,526,686
Total liabilities and fund balances	\$ 755,495	\$ 803,386	\$ 4,469,266	\$ 4,847,168	\$ 10,875,315

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

CITY OF RED BLUFF
RECONCILIATION OF FUND BALANCES TO NET ASSETS
JUNE 30, 2010

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 9,526,686
Assets recorded within the Statement of Net Assets not reported in the funds:		
Non-depreciable capital assets		313,787
Depreciable capital assets	\$ 60,974,454	
Accumulated depreciation	<u>(26,196,719)</u>	34,777,735
Liabilities recorded within the funds not reported in the Statement of Net Assets:		
Deferred interest		567,325
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Capital lease		(76,612)
Compensated absences		(1,057,249)
Other postemployment benefits obligation		<u>(168,013)</u>
Net assets reported within the Statement of Net Assets - Governmental Activities		<u>\$ 43,883,659</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, 2010

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales taxes	\$ 2,199,252	-	-	-	\$ 2,199,252
Property taxes	1,462,204	-	-	-	1,462,204
Motel taxes	555,234	-	-	-	555,234
Franchise taxes	223,635	-	-	-	223,635
Other taxes	37,279	113,512	-	68,163	218,954
Licenses and permits	290,205	-	-	-	290,205
Fines, forfeitures and penalties	27,004	-	-	51,682	78,686
Use of money and property	14,323	191	827	27,601	42,942
Intergovernmental revenue	1,394,122	124,700	307,473	861,627	2,687,922
Charges for current services	105,746	-	-	-	105,746
Other revenues	188,875	-	-	144,667	333,542
Total revenues	6,497,879	238,403	308,300	1,153,740	8,198,322
Expenditures:					
Current:					
General government	1,469,216	-	-	10,500	1,479,716
Fire public safety	1,695,134	-	-	-	1,695,134
Police public safety	3,885,703	-	-	-	3,885,703
Parks and recreation	433,124	-	-	-	433,124
Transportation and streets	-	717,053	-	6,815	723,868
Senior nutrition program	-	-	-	289,701	289,701
Grants and program income	-	-	69,120	94,913	164,033
Capital outlay	85,916	14,760	-	193,088	293,764
Debt service					
Principal	35,969	-	-	-	35,969
Interest	4,807	-	-	-	4,807
Total expenditures	7,609,869	731,813	69,120	595,017	9,005,819
Excess (deficiency) of revenues over (under) expenditures	(1,111,990)	(493,410)	239,180	558,723	(807,497)
Other financing sources (uses):					
Operating transfers in	6,636,812	722,964	-	251,786	7,611,562
Operating transfers out	(6,408,938)	-	(249,636)	(522,330)	(7,180,904)
Total other financing sources (uses)	227,874	722,964	(249,636)	(270,544)	430,658

(Continued on following page)

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, 2010

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(884,116)</u>	<u>229,554</u>	<u>(10,456)</u>	<u>288,179</u>	<u>(376,839)</u>
Fund balances, beginning of year, as originally reported	850,825	532,713	3,945,450	4,347,256	9,676,244
Prior period adjustment	<u>227,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>227,281</u>
Fund balance, beginning of year, as restated	<u>1,078,106</u>	<u>532,713</u>	<u>3,945,450</u>	<u>4,347,256</u>	<u>9,903,525</u>
Fund balances, end of year	<u><u>\$ 193,990</u></u>	<u><u>\$ 762,267</u></u>	<u><u>\$ 3,934,994</u></u>	<u><u>\$ 4,635,435</u></u>	<u><u>\$ 9,526,686</u></u>

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, 2010

Total net change in fund balance included in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ (376,839)
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.	(1,636,503)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	237,042
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.	35,969
Some transactions 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>62,796</u>
Net change in net assets reported within the Statement of Activities - Governmental Activities	<u><u>\$ (1,677,535)</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 - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,199,252	\$ (100,748)
Property taxes	1,501,523	1,501,523	1,462,204	(39,319)
Motel taxes	500,000	500,000	555,234	55,234
Franchise taxes	220,000	220,000	223,635	3,635
Other taxes	43,000	43,000	37,279	(5,721)
Licenses and permits	282,650	282,650	290,205	7,555
Fines, forfeitures and penalties	19,600	19,600	27,004	7,404
Use of money and property	40,000	40,000	14,323	(25,677)
Intergovernmental revenue	1,184,408	1,184,408	1,394,122	209,714
Charges for current services	120,050	120,050	105,746	(14,304)
Other revenues	156,200	156,200	188,875	32,675
Total revenues	6,367,431	6,367,431	6,497,879	130,448
Expenditures:				
Current:				
General government	1,497,420	1,495,969	1,469,216	26,753
Fire public safety	1,672,406	1,613,609	1,695,134	(81,525)
Police public safety	3,896,675	3,844,838	3,885,703	(40,865)
Parks and recreation	446,057	414,905	433,124	(18,219)
Transportation and streets	-	-	-	-
Grants and program income	-	-	-	-
Capital outlay	-	-	85,916	(85,916)
Debt service:				
Principal	-	-	35,969	(35,969)
Interest	-	-	4,807	(4,807)
Total expenditures	7,512,558	7,369,321	7,609,869	(240,548)
Excess (deficiency) of revenues over (under) expenditures	(1,145,127)	(1,001,890)	(1,111,990)	(110,100)

(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		
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
90,000	90,000	113,512	23,512	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	191	191	-	-	827	827
216,090	216,090	124,700	(91,390)	1,000,373	1,000,373	307,473	(692,900)
-	-	-	-	-	-	-	-
500	500	-	(500)	-	-	-	-
<u>306,590</u>	<u>306,590</u>	<u>238,403</u>	<u>(68,187)</u>	<u>1,000,373</u>	<u>1,000,373</u>	<u>308,300</u>	<u>(692,073)</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
873,700	901,899	717,053	184,846	-	-	-	-
-	-	-	-	4,852	4,852	69,120	(64,268)
365,100	365,100	14,760	350,340	266,122	266,122	-	266,122
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,238,800</u>	<u>1,266,999</u>	<u>731,813</u>	<u>535,186</u>	<u>270,974</u>	<u>270,974</u>	<u>69,120</u>	<u>201,854</u>
<u>(932,210)</u>	<u>(960,409)</u>	<u>(493,410)</u>	<u>466,999</u>	<u>729,399</u>	<u>729,399</u>	<u>239,180</u>	<u>(490,219)</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, 2010

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Other financing sources (uses):				
Operating transfers in	6,046,195	6,046,195	6,636,812	590,617
Operating transfers out	(5,920,140)	(5,920,140)	(6,408,938)	(488,798)
Total other financing sources (uses)	<u>126,055</u>	<u>126,055</u>	<u>227,874</u>	<u>101,819</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,019,072)</u>	<u>(875,835)</u>	<u>(884,116)</u>	<u>(8,281)</u>
Fund balances, beginning of the year, as originally reported	850,825	850,825	850,825	-
Prior period adjustment	-	-	227,281	227,281
Fund balances, beginning of the year, as restated	<u>850,825</u>	<u>850,825</u>	<u>1,078,106</u>	<u>227,281</u>
Fund balances, end of year	<u>\$ (168,247)</u>	<u>\$ (25,010)</u>	<u>\$ 193,990</u>	<u>\$ 219,000</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		
721,305	721,305	722,964	1,659	70,000	70,000	-	(70,000)
-	-	-	-	-	-	(249,636)	(249,636)
<u>721,305</u>	<u>721,305</u>	<u>722,964</u>	<u>1,659</u>	<u>70,000</u>	<u>70,000</u>	<u>(249,636)</u>	<u>(319,636)</u>
<u>(210,905)</u>	<u>(239,104)</u>	<u>229,554</u>	<u>468,658</u>	<u>799,399</u>	<u>799,399</u>	<u>(10,456)</u>	<u>(809,855)</u>
532,713	532,713	532,713	-	3,945,450	3,945,450	3,945,450	-
-	-	-	-	-	-	-	-
<u>532,713</u>	<u>532,713</u>	<u>532,713</u>	<u>-</u>	<u>3,945,450</u>	<u>3,945,450</u>	<u>3,945,450</u>	<u>-</u>
<u>\$ 321,808</u>	<u>\$ 293,609</u>	<u>\$ 762,267</u>	<u>\$ 468,658</u>	<u>\$4,744,849</u>	<u>\$4,744,849</u>	<u>\$3,934,994</u>	<u>\$ (809,855)</u>

CITY OF RED BLUFF
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2010

	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,754,282	\$ 5,213,577	\$ 283,599	\$10,251,458
Receivables:				
Accounts, net	444,059	430,805	8,008	882,872
Due from other governments	-	-	81,826	81,826
Due from other funds	-	-	133,790	133,790
Total current assets	<u>5,198,341</u>	<u>5,644,382</u>	<u>507,223</u>	<u>11,349,946</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	170,857	-	-	170,857
Prepaid expenses and deferred charges	17,442	-	-	17,442
Non-depreciable capital assets	377,325	146,117	386,926	910,368
Depreciable capital assets, net	5,763,375	9,026,947	2,124,109	16,914,431
Total noncurrent assets	<u>6,328,999</u>	<u>9,173,064</u>	<u>2,511,035</u>	<u>18,013,098</u>
Total assets	<u>\$11,527,340</u>	<u>\$14,817,446</u>	<u>\$ 3,018,258</u>	<u>\$29,363,044</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, 2010

	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 76,049	\$ 61,520	\$ 11,792	\$ 149,361
Accrued interest payable	36,852	64,712	-	101,564
Accrued payroll and benefits	8,261	16,290	16,726	41,277
Customer/employee deposits	-	81,318	29,194	110,512
Other liabilities	-	50	1,085	1,135
Compensated absences payable, current	17,596	15,049	16,534	49,179
Bonds and loan payable, current	324,535	101,541	-	426,076
Due to other funds	-	-	45,741	45,741
Total current liabilities	463,293	340,480	121,072	924,845
Noncurrent liabilities:				
Compensated absences, net	52,789	45,146	49,180	147,115
Bonds and loans payable, net	3,133,889	3,424,984	-	6,558,873
Total noncurrent liabilities	3,186,678	3,470,130	49,180	6,705,988
Total liabilities	3,649,971	3,810,610	170,252	7,630,833
NET ASSETS				
Investment in capital assets, net of related debt	2,682,276	5,646,539	2,511,035	10,839,850
Unrestricted	5,195,093	5,360,297	336,971	10,892,361
Total net assets	7,877,369	11,006,836	2,848,006	21,732,211
Total liabilities and net assets	\$11,527,340	\$14,817,446	\$ 3,018,258	\$29,363,044

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, 2010

	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
Operating revenues:				
Charges for current services:				
Waste water and water charges	\$ 2,109,942	\$ 1,960,408	-	\$ 4,070,350
Permits and fees	-	-	271,080	271,080
Rental revenue	-	-	150,937	150,937
Other revenue	-	-	64,155	64,155
Total operating revenues	<u>2,109,942</u>	<u>1,960,408</u>	<u>486,172</u>	<u>4,556,522</u>
Operating expenses:				
Cost of power and transportation	146,716	278,268	43,195	468,179
Maintenance, operations, and administration	953,406	590,346	638,892	2,182,644
Depreciation expense	352,652	323,383	126,360	802,395
Total operating expenses	<u>1,452,774</u>	<u>1,191,997</u>	<u>808,447</u>	<u>3,453,218</u>
Operating income (loss)	<u>657,168</u>	<u>768,411</u>	<u>(322,275)</u>	<u>1,103,304</u>
Nonoperating revenues (expenses):				
Property taxes	-	-	63,666	63,666
Intergovernmental revenues	-	-	77,914	77,914
Investment income	30,707	36,182	3,193	70,082
Interest expense	(104,214)	(118,844)	-	(223,058)
Total nonoperating revenues (expenses)	<u>(73,507)</u>	<u>(82,662)</u>	<u>144,773</u>	<u>(11,396)</u>
Income before operating transfers	583,661	685,749	(177,502)	1,091,908
Capital contributions	-	-	5,598	5,598
Operating transfers in	-	-	185,348	185,348
Operating transfers out	(205,992)	(287,496)	(122,518)	(616,006)
Change in net assets	377,669	398,253	(109,074)	666,848
Total net assets, beginning of year	<u>7,499,700</u>	<u>10,608,583</u>	<u>2,957,080</u>	<u>21,065,363</u>
Total net assets, end of year	<u>\$ 7,877,369</u>	<u>\$11,006,836</u>	<u>\$ 2,848,006</u>	<u>\$21,732,211</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, 2010

	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,153,912	\$ 2,072,359	\$ 506,507	\$ 4,732,778
Cash paid to employees (including employee benefits)	(509,903)	(396,922)	(500,118)	(1,406,943)
Cash paid to suppliers	(614,450)	(462,436)	(186,627)	(1,263,513)
Net cash provided (used) by operating activities	<u>1,029,559</u>	<u>1,213,001</u>	<u>(180,238)</u>	<u>2,062,322</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Property taxes received	-	-	63,666	63,666
Cash received from (paid to) other funds	(27,005)	6,351	(782,126)	(802,780)
Operating transfers in	-	-	185,348	185,348
Operating transfers out	(205,992)	(287,496)	(122,518)	(616,006)
Net cash (used) by noncapital financing activities	<u>(232,997)</u>	<u>(281,145)</u>	<u>(655,630)</u>	<u>(1,169,772)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Intergovernmental revenue received	-	-	708,579	708,579
Payments for the purchase of capital assets	-	(13,270)	-	(13,270)
Debt principal paid	(306,418)	(98,517)	-	(404,935)
Debt interest paid	(104,471)	(120,652)	-	(225,123)
Net cash provided (used) by capital and related financing activities	<u>(410,889)</u>	<u>(232,439)</u>	<u>708,579</u>	<u>65,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	30,707	36,182	3,193	70,082
Net cash provided by investing activities	<u>30,707</u>	<u>36,182</u>	<u>3,193</u>	<u>70,082</u>
Net increase (decrease) in cash and cash equivalents	416,380	735,599	(124,096)	1,027,883
Cash and cash equivalents, beginning of year	<u>4,508,759</u>	<u>4,477,978</u>	<u>407,695</u>	<u>9,394,432</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,925,139</u></u>	<u><u>\$ 5,213,577</u></u>	<u><u>\$ 283,599</u></u>	<u><u>\$10,422,315</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, 2010

	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 657,168	\$ 768,411	\$ (322,275)	\$ 1,103,304
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	352,652	323,383	126,360	802,395
(Increase) decrease in:				
Accounts receivable	43,970	98,270	21,995	164,235
Prepaid expenses and deferred charges	1,938	-	-	1,938
Increase (decrease) in:				
Accounts payable	50,011	11,738	350	62,099
Accrued payroll and benefits	(23,068)	(5,742)	(10,035)	(38,845)
Customer/employee deposits	-	13,681	(1,660)	12,021
Other liabilities	(133)	(10)	223	80
Compensated absences payable	(52,979)	3,270	4,804	(44,905)
Total adjustments	372,391	444,590	142,037	959,018
Net cash provided (used) by operating activities	<u>\$ 1,029,559</u>	<u>\$ 1,213,001</u>	<u>\$ (180,238)</u>	<u>\$ 2,062,322</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:				
Cash and cash equivalents	\$ 4,754,282	\$ 5,213,577	\$ 283,599	\$10,251,458
Restricted assets:				
Cash and cash equivalents	170,857	-	-	170,857
	<u>\$ 4,925,139</u>	<u>\$ 5,213,577</u>	<u>\$ 283,599</u>	<u>\$10,422,315</u>

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

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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, 2010

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.

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, 2010

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 \$240,548. 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, 2010

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, 2010 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, 2010 for the water and sewer departments were \$17,507 and \$19,496, respectively.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2010 consisted of the following:

Cash in banks	\$ 773,057
State of California – Local Agency Investment Fund (LAIF)	14,600,247
U.S. Bank guaranteed investment agreements: Berkshire Hathaway Inc., 11/17/94	<u>170,857</u>
Total cash and cash equivalents	\$ <u>15,544,161</u>

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 2 CASH AND CASH EQUIVALENTS
 (Continued)

Cash and cash equivalents as of June 30, 2010 are displayed on the government-wide Statement of Net Assets as follows:

Cash and cash equivalents	\$ 15,373,304
Restricted cash and cash equivalents	<u>170,857</u>
Total	<u>\$ 15,544,161</u>

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, 2010, \$511,180 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 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, 2010, 5.42% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. In addition, PMIA's weighted average maturities was 0.644 years at June 30, 2010. (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, 2010

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, 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>8,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,581</u>
Non-depreciable capital assets total	<u>313,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,787</u>
Depreciable capital assets:					
Buildings	1,986,188	-	-	-	1,986,188
Improvements	2,708,232	-	-	-	2,708,232
Equipment	1,468,935	18,131	-	-	1,487,066
Vehicles	2,686,049	97,403	47,457	-	2,735,995
Infrastructure	<u>52,056,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,056,973</u>
	<u>60,906,377</u>	<u>115,534</u>	<u>47,457</u>	<u>-</u>	<u>60,974,454</u>
Less accumulated depreciation:					
Buildings	1,693,057	19,941	-	-	1,712,998
Improvements	841,520	130,693	-	-	972,213
Equipment	953,566	135,368	-	-	1,088,934
Vehicles	1,916,523	176,637	47,457	-	2,045,703
Infrastructure	<u>19,087,475</u>	<u>1,289,396</u>	<u>-</u>	<u>-</u>	<u>20,376,871</u>
	<u>24,492,141</u>	<u>1,752,035</u>	<u>47,457</u>	<u>-</u>	<u>26,196,719</u>
Depreciable capital assets, net	<u>36,414,236</u>	<u>(1,636,501)</u>	<u>-</u>	<u>-</u>	<u>34,777,735</u>
Governmental capital assets, net	<u>\$ 36,728,023</u>	<u>\$ (1,636,501)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,091,522</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 87,399
Fire	162,660
Police	85,058
Parks and recreation	101,381
Transportation and streets	<u>1,315,537</u>
Total governmental activities depreciation expense	<u>\$ 1,752,035</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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	\$ 910,368	\$ -	\$ -	\$ -	\$ 910,368
Construction in progress	<u>1,473</u>	<u>-</u>	<u>-</u>	<u>(1,473)</u>	<u>-</u>
Non-depreciable capital assets total	<u>911,841</u>	<u>-</u>	<u>-</u>	<u>(1,473)</u>	<u>910,368</u>
Depreciable capital assets:					
Buildings	1,467,760	-	-	-	1,467,760
Improvements	16,868,630	13,270	-	1,473	16,883,373
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>32,439,543</u>	<u>13,270</u>	<u>-</u>	<u>1,473</u>	<u>32,454,286</u>
Less accumulated depreciation:					
Buildings	1,220,036	13,366	-	-	1,233,402
Improvements	6,440,519	449,899	-	-	6,890,418
Equipment	584,840	58,327	-	-	643,167
Vehicles	531,895	30,830	-	-	562,725
Infrastructure	<u>5,960,170</u>	<u>249,973</u>	<u>-</u>	<u>-</u>	<u>6,210,143</u>
	<u>14,737,460</u>	<u>802,395</u>	<u>-</u>	<u>-</u>	<u>15,539,855</u>
Depreciable capital assets, net	<u>17,702,083</u>	<u>(789,125)</u>	<u>-</u>	<u>1,473</u>	<u>16,914,431</u>
Business-type capital assets, net	<u>\$ 18,613,924</u>	<u>\$ (789,125)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,824,799</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Building	\$ 5,233
Waste water	352,652
Water	323,383
Airport	118,652
Community center	<u>2,475</u>
Total business-type activities depreciation expense	<u>\$ 802,395</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 LONG-TERM LIABILITIES

ACTIVITY

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2010:

	<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>112,582</u>	\$ <u>-</u>	\$ <u>35,970</u>	\$ <u>76,612</u>	\$ <u>37,505</u>
Other liabilities:					
Compensated absences	1,217,182	156,821	316,754	1,057,249	264,313
Other postemployment benefits	<u>76,667</u>	<u>91,346</u>	<u>-</u>	<u>168,013</u>	<u>-</u>
Total other liabilities	<u>1,293,849</u>	<u>248,167</u>	<u>316,754</u>	<u>1,225,262</u>	<u>264,313</u>
Total governmental activities	<u>1,406,431</u>	<u>248,167</u>	<u>352,724</u>	<u>1,301,874</u>	<u>301,818</u>
Business-type activities:					
Revenue bonds and loans payable:					
Revenue Bonds	315,000	-	150,000	165,000	165,000
State Revolving Loan Fund	1,414,571	-	117,418	1,297,153	119,535
USDA Loan	2,035,271	-	39,000	1,996,271	40,000
CIEDB Loan	<u>3,625,042</u>	<u>-</u>	<u>98,517</u>	<u>3,526,525</u>	<u>101,541</u>
	<u>7,389,884</u>	<u>-</u>	<u>404,935</u>	<u>6,984,949</u>	<u>426,076</u>
Other Liabilities:					
Compensated absences	<u>241,199</u>	<u>95,515</u>	<u>140,420</u>	<u>196,294</u>	<u>49,179</u>
Total business-type activities	<u>7,631,083</u>	<u>95,515</u>	<u>545,355</u>	<u>7,181,243</u>	<u>475,255</u>
Total long-term liabilities	\$ <u>9,037,514</u>	\$ <u>343,682</u>	\$ <u>898,079</u>	\$ <u>8,483,117</u>	\$ <u>777,073</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 \$106,499 as of June 30, 2010. 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 \$81,553, including interest in the amount of \$4,941. The present value of the remaining payments is \$76,612. Amortization of leased assets is included with depreciation expense.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$168,486, while total pledged system revenues were \$1,425,579. Total principal and interest remaining on the bonds is \$171,548, 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, 2010

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 \$2,109,942. Total principal and interest remaining on the bonds is \$1,429,230, 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 called 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 \$208,293, while total pledged system revenues were \$804,593. Total principal and interest remaining on the bonds is \$4,981,200, 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, 2010

NOTE 4 LONG-TERM LIABILITIES
(Continued)

LONG-TERM DEBT SUMMARY

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 463,581	\$ 203,707	\$ 667,288
2012	307,456	189,346	496,802
2013	274,757	180,839	455,596
2014	281,301	173,830	455,131
2015	288,989	166,628	455,617
2016 – 2020	1,557,497	718,082	2,275,579
2021 – 2025	1,026,460	532,437	1,558,897
2026 – 2030	1,196,685	359,303	1,555,988
2031 – 2035	1,185,564	160,575	1,346,139
2036 – 2040	<u>479,271</u>	<u>39,906</u>	<u>519,177</u>
Total	<u>\$ 7,061,561</u>	<u>\$ 2,724,653</u>	<u>\$ 9,786,214</u>

INTEREST EXPENSE

The total interest incurred for the year ended June 30, 2010 was \$227,865. 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's actuarially determined annual required contribution for the year ended June 30, 2010, was \$94,216, interest on the net OPEB obligation was \$3,833, and contributions made by the City during the year were \$6,703, which resulted in a net OPEB obligation of \$168,013. See Note 8 for additional information regarding the OPEB obligation and the postemployment benefit plan.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 \$1,000,000. 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, 2010

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, 2010 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, 2010, including incurred but not reported claims (IBNRs). Claims paid for the workers' compensation and general liability programs for the fiscal year ended June 30, 2010 were \$31,774 and \$67,417, respectively.

It is the City's policy not to record the fluctuations in its banking layer. As of June 30, 2010, the City had recorded a liability in its funds for anticipated workers' compensation claims in the amount of \$18,073 while the JPA reported that the City has a surplus in its workers' compensation program in the amount of \$328,274. 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 \$244,591 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, 2010:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Internal Balances</u>
Governmental activities:			
General	\$ 78,465	\$ 78,465	\$ -
Transportation	60,321	-	60,321
Other governmental	<u>-</u>	<u>148,370</u>	<u>(148,370)</u>
Total governmental activities	<u>138,786</u>	<u>226,835</u>	<u>(88,049)</u>
Business-type activities:			
Other enterprise	<u>133,790</u>	<u>45,741</u>	<u>88,049</u>
Total business-type activities	<u>133,790</u>	<u>45,741</u>	<u>88,049</u>
Total government-wide statement	\$ <u>272,576</u>	\$ <u>272,576</u>	\$ <u>-</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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

TRANSFERS

The following is a summary of transfers for the year ended June 30, 2010:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Net Transfers</u>
Governmental activities:			
General	\$ 6,636,812	\$ 6,408,938	\$ 227,874
Transportation	722,964	-	722,964
Grants	-	249,636	(249,636)
Other governmental	<u>251,786</u>	<u>522,330</u>	<u>(270,544)</u>
Total governmental activities	<u>7,611,562</u>	<u>7,180,904</u>	<u>430,658</u>
Business-type activities:			
Waste water	-	205,992	(205,992)
Water	-	287,496	(287,496)
Other enterprise	<u>185,348</u>	<u>122,518</u>	<u>62,830</u>
Total business-type activities	<u>185,348</u>	<u>616,006</u>	<u>(430,658)</u>
Total government-wide statement	\$ <u>7,796,910</u>	\$ <u>7,796,910</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, 2010

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 5.781% for miscellaneous employees, 20.436% for safety fire plan employees and 35.523% 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, 2010, the City's annual pension cost of \$800,980 was equal to the City's actual and required contributions. The required contribution was determined as part of the June 30, 2007 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, 2010, the amortization periods were 13, 10 and 13 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, 2010

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>
6/30/08	\$ 155,957	100 %	\$ -
6/30/09	\$ 166,925	100 %	\$ -
6/30/10	\$ 153,188	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>
6/30/08	\$ 139,286	100 %	\$ -
6/30/09	\$ 147,612	100 %	\$ -
6/30/10	\$ 145,567	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>
6/30/08	\$ 471,537	100 %	\$ -
6/30/09	\$ 536,635	100 %	\$ -
6/30/10	\$ 502,225	100 %	\$ -

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

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, 2010, membership of the Plan consists of 9 retirees currently receiving benefits and 111 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, 2010, the City paid \$6,703 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
Interest on obligation from prior year	<u>3,833</u>
Annual OPEB cost for the year	98,049
Contributions made for the year	<u>(6,703)</u>
Increase in net OPEB obligation	91,346
Net OPEB obligation, beginning of the year	<u>76,667</u>
Net OPEB obligation, end of year	\$ <u><u>168,013</u></u>

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

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 2010 is as follows: (since this is the second year of implementation, only two years of information is presented):

	June 30,	
	2010	2009
Annual OPEB cost	\$ 94,216	\$ 94,216
Percentage of annual OPEB costs contributed	7.11%	18.63%
Net OPEB obligation, end of year	\$ 168,013	\$ 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	\$ -
Actuarial value of plan assets as a percentage of AAL	0.0%
Unfunded AAL (UAAL)	\$ 946,380
Covered payroll	\$ 5,634,897
UAAL as percentage of covered payroll	16.79%

As of June 30, 2010, the City has not set aside any amounts in an external trust fund.

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CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010

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, 2010, the funds listed below reported deficit fund balances or retained earnings:

Fund	Amount
Business-type funds:	
Community Center	\$ 2,917

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12 PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Red Bluff was \$273,739.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 13 PRIOR PERIOD ADJUSTMENT

During the current year, the City revised their method of recording sales tax revenue received from the State of California. This change was brought about by the State of California revising the reporting of sales tax revenue allocation periods. The effect of this change in allocation periods increased the amount of sales tax which should have been recorded in the prior year. Therefore this change increases beginning net assets by \$227,281 in the General Fund and the Governmental Activities section of the Government-Wide statements. There is no effect of this adjustment on operations of the current year.

Entity Wide:

	Government- Wide Governmental Activities	Business-Type Activities	Total
Net assets, June 30, 2009, as previously reported	\$ 45,333,913	\$ 21,065,363	\$ 66,399,276
Change in sales tax revenue allocation periods	<u>227,281</u>	-	<u>227,281</u>
Net assets, June 30, 2009, as restated	\$ <u>45,561,194</u>	\$ <u>21,065,363</u>	\$ <u>66,626,557</u>

Governmental Funds:

	General Fund	Total
Fund balances, June 30, 2009, as previously reported	\$ 850,825	\$ 9,676,244
Change in sales tax revenue allocation periods	<u>227,281</u>	<u>227,281</u>
Fund balances, June 30, 2009, as restated	\$ <u>1,078,106</u>	\$ <u>9,903,525</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 14 IMPLEMENTATION OF NEW PRONOUNCEMENT

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which will become effective July 1, 2010, establishes accounting and financial reporting requirements which will result in changes to fund balance classifications, including restricted, committed, assigned and unassigned based on the constraints of the funds. The City is currently analyzing the impact of the implementation of this Statement.

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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, 2010, which collectively comprise the City of Red Bluff's basic financial statements and have issued our report thereon dated June 9, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-1 to be 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 June 9, 2011.

The City of Red Bluff's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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

June 9, 2011

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

A. FINDINGS – FINANCIAL STATEMENTS AUDIT

2010-1 – Audit Adjustments

Condition: During our audit of the current year, we noted several adjustments that were material to the financial statements and which were required to be posted 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: Finance Department management will continue to strive to prepare and deliver final trial balances that are completely ready for the financial statement format in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

CITY OF RED BLUFF
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT

2009-1 – Audit Adjustments

Condition: In prior years, we were required to record several adjustments that were material to the financial statements and which were required to be posted 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 2010-1

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

**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 prior 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.

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: As noted during the prior year audit, the City changed its reporting of personnel costs charged to grants during the fiscal year ended June 30, 2009. During the current year audit, we did not note any personnel costs charged to grants which were not either actual, direct costs or indirect costs approved under an indirect cost allocation plan.