

CITY OF RED BLUFF
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

CITY OF RED BLUFF
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CITY OF RED BLUFF
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2011

CITY COUNCIL

Mayor Bob Carrel
Mayor Pro Tem Forrest Flynn
Council Member Wayne Brown
Council Member Daniele Jackson
Council Member Rob Schmid

ADMINISTRATIVE PERSONNEL

City Manager Martin Nichols
City Attorney Richard Crabtree
City Treasurer Donna Gordy
Finance Director Sandra Ryan
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, 2011, which collectively comprise the City'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, 2011, 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 February 16, 2012, 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Bluff, California's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Matson and Isom

February 16, 2012

CITY OF RED BLUFF
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

The assets of the City of Red Bluff exceeded its liabilities at the close of the most recent fiscal year by \$64,886,737 (net assets). Of this amount, \$10,728,274 (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 \$729,133.

As of the close of the current fiscal year, the City of Red Bluff's governmental activities reported combined total net assets of \$44,308,546. Of this amount \$653,482 is unrestricted and available for use within the City's designation and policies.

At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$25,567 or 0.004% of the total General Fund expenditures. The assigned fund balance, assigned for contingencies, for the General Fund was \$400,000 or 6% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets.

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 29 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. The General Fund consists of three funds: General, Public Safety, and Parks and Recreation. Data from the other 24 funds are combined into a single, aggregated presentation.

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 57 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As stated above, the City of Red Bluff assets exceeded liabilities by \$64,886,737 as of June 30, 2011.

The largest portion of the City's net assets (68%) 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, 2011**

The following table provides a summary of the City's Net Assets for the years ended June 30, 2011 and 2010.

CITY OF RED BLUFF'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
ASSETS						
Current and other assets	\$ 12,379,189	\$ 10,648,478	\$ 10,524,958	\$ 11,492,504	\$ 22,904,147	\$ 22,140,982
Capital assets	<u>33,836,490</u>	<u>35,091,522</u>	<u>17,062,271</u>	<u>17,824,799</u>	<u>50,898,761</u>	<u>52,916,321</u>
Total assets	<u>46,215,679</u>	<u>45,740,000</u>	<u>27,587,229</u>	<u>29,317,303</u>	<u>73,802,908</u>	<u>75,057,303</u>
LIABILITIES						
Long-term liabilities	1,557,235	1,301,874	6,745,665	7,181,243	8,302,900	8,483,117
Other liabilities	<u>349,898</u>	<u>554,467</u>	<u>263,373</u>	<u>403,849</u>	<u>613,271</u>	<u>958,316</u>
Total liabilities	<u>1,907,133</u>	<u>1,856,341</u>	<u>7,009,038</u>	<u>7,585,092</u>	<u>8,916,171</u>	<u>9,441,433</u>
NET ASSETS						
Invested in capital assets, net of related debt	33,797,383	35,014,910	10,503,399	10,839,850	44,300,782	45,854,760
Restricted	9,857,681	8,156,518	-	-	9,857,681	8,156,518
Unrestricted	<u>653,482</u>	<u>712,231</u>	<u>10,074,792</u>	<u>10,892,361</u>	<u>10,728,274</u>	<u>11,604,592</u>
Total net assets	\$ <u>44,308,546</u>	\$ <u>43,883,659</u>	\$ <u>20,578,191</u>	\$ <u>21,732,211</u>	\$ <u>64,886,737</u>	\$ <u>65,615,870</u>

An additional portion of \$9,857,681 of the City's net assets (15%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$10,728,274 may be used to meet the government's ongoing obligation to citizens and creditors.

As of June 30, 2011, 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, 2011 and 2010.

CITY OF RED BLUFF

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

CITY OF RED BLUFF'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 531,646	\$ 541,829	\$ 4,568,375	\$ 4,556,522	\$ 5,100,021	\$ 5,098,351
Operating grants and contributions	822,403	1,248,148	80,971	77,914	903,374	1,326,062
Capital grants and contributions	152,536	292,130	191,012	5,598	343,548	297,728
General Revenues:						
Sales taxes	2,460,266	2,328,891	-	-	2,460,266	2,328,891
Property taxes	1,354,960	1,462,204	41,544	63,666	1,396,504	1,525,870
Motel taxes	596,603	555,234	-	-	596,603	555,234
Special gas taxes	334,068	231,350	-	-	334,068	231,350
Franchise taxes	287,059	223,635	-	-	287,059	223,635
Other taxes	173,406	232,246	-	-	173,406	232,246
Motor vehicle license fees	1,114,162	1,037,000	-	-	1,114,162	1,037,000
Impact fees	47,108	123,586	-	-	47,108	123,586
Gain/(Loss) on sale of assets	-	8,766	-	-	-	8,766
Investment earnings	107,097	150,343	42,225	70,082	149,322	220,425
Total revenues	7,981,314	8,435,362	4,924,127	4,773,782	12,905,441	13,209,144
Expenses:						
General government:						
City administration	387,444	380,284	-	-	387,444	380,284
Finance	423,246	434,417	-	-	423,246	434,417
Community promotion and economic development	112,101	109,490	-	-	112,101	109,490
Human resources	182,810	176,027	-	-	182,810	176,027
Engineering and administration	202,983	226,142	-	-	202,983	226,142
Government buildings	123,508	132,928	-	-	123,508	132,928
General government	163,765	182,391	-	-	163,765	182,391
Public safety:						
Fire	1,729,515	1,852,232	-	-	1,729,515	1,852,232
Police	3,627,431	3,947,641	-	-	3,627,431	3,947,641
Parks and recreation	474,044	533,155	-	-	474,044	533,155
Transportation and streets	2,030,618	2,016,520	-	-	2,030,618	2,016,520
Senior nutrition program	293,014	293,341	-	-	293,014	293,341
Grants and program income	98,606	258,987	-	-	98,606	258,987
Building	-	-	269,578	260,067	269,578	260,067
Planning	-	-	89,340	132,264	89,340	132,264
Waste water	-	-	1,546,492	1,556,988	1,546,492	1,556,988
Water	-	-	1,306,676	1,310,841	1,306,676	1,310,841
Airport	-	-	322,376	166,101	322,376	166,101
Community center	-	-	251,027	250,015	251,027	250,015
Total expenses	9,849,085	10,543,555	3,785,489	3,676,276	13,634,574	14,219,831
Excess (deficiency) before transfers	(1,867,771)	(2,108,193)	1,138,638	1,097,506	(729,133)	(1,010,687)
Transfers	457,303	430,658	(457,303)	(430,658)	-	-
(Decrease) increase in net assets	(1,410,468)	(1,677,535)	681,335	666,848	(729,133)	(1,010,687)
New GASB 54 adjustment	1,835,355	-	(1,835,355)	-	-	-
Net assets, beg. of year	43,883,659	45,561,194	21,732,211	21,065,363	65,615,870	66,626,557
Net assets, end of year	\$ 44,308,546	\$ 43,883,659	\$ 20,578,191	\$ 21,732,211	\$ 64,886,737	\$ 65,615,870

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Also, assigned fund balance has been set aside for contingencies, or unexpected expenditures.

At the end of the current fiscal year, the City of Red Bluff's governmental funds reported combined ending fund balances of \$11,386,104. Approximately 3.6% of this total amount constitutes unassigned and assigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available for general operational spending because it is required to be used for certain expenditures.

In the General Fund, the City budgeted for a reduction in the fund balance of \$228,263 which was a result of authorized budgeted expenditures exceeding appropriations. Actual revenues were \$6,744,997 with final budget being \$6,469,263 with a favorable variance of \$275,734 and actual expenditures being more than budgeted expenditures with an unfavorable variance of \$83,032.

Proprietary Funds

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

Unrestricted net assets of the respective major proprietary funds are Waste Water Fund \$4,325,220 and Water Fund \$5,402,951. All Other Enterprise Funds had unrestricted net assets in 2011 of \$346,621.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. These changes resulted in an increase in the General Fund revenues and expenditures from the original budget by \$65,848 each. This increase was due to a new grant which increased revenue and expenditures by the same amount. Overall, authorized General Fund expenditures for fire public safety, police public safety, and general government departments were over budget. However, General Fund expenditures for parks and recreation and capital outlay were under budget.

The City's total budgeted revenue at final budget was \$6,469,263. The majority of the revenue received over budgeted was sales taxes, motel taxes, franchise taxes, and intergovernmental revenue which includes motor vehicle license fees. The majority of the revenue received under budgeted was property taxes.

CITY OF RED BLUFF

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

CAPITAL ASSETS

The City of Red Bluff's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$50,898,761 (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	
	2011	2010	2011	2010	2011	2010
Land	\$ 305,206	\$ 305,206	\$ 910,368	\$ 910,368	\$ 1,215,574	\$ 1,215,574
Buildings	257,484	273,190	221,191	234,358	478,675	507,548
Improvements	1,607,286	1,736,019	9,567,832	9,992,955	11,175,118	11,728,974
Equipment	273,625	398,132	183,242	241,568	456,867	639,700
Vehicles	633,480	690,292	80,196	97,980	713,676	788,272
Infrastructure	30,750,828	31,680,102	6,099,442	6,347,570	36,850,270	38,027,672
Construction in progress	8,581	8,581	-	-	8,581	8,581
Total	\$ 33,836,490	\$ 35,091,522	\$ 17,062,271	\$ 17,824,799	\$ 50,898,761	\$ 52,916,321

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Red Bluff had a total bonded debt and notes payable of \$6,558,872. 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, 2011

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 \$4,723,000 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. As of June 30, 2008 the total disbursements under the loan amount to \$3,942,000.

OUTSTANDING DEBT AT YEAR END BONDS AND NOTES PAYABLE

	<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenue bonds payable	\$ -	\$ 165,000
Notes payable	<u>6,558,872</u>	<u>6,819,949</u>
Total	\$ <u>6,558,872</u>	\$ <u>6,984,949</u>

ECONOMIC FACTORS INFLUENCING NEXT YEAR'S BUDGETS

City Management recommended and the City Council considered several important factors in adopting the 2011-12 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, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,778,614	\$ 9,388,294	\$ 16,166,908
Receivables:			
Taxes	167,009	-	167,009
Accounts, net	45,743	860,633	906,376
Interest	643,185	-	643,185
Due from other governments	613,102	143,075	756,177
Prepaid expenses and deferred charges	1,869	15,504	17,373
Internal balances	(117,452)	117,452	-
Loans receivable	4,247,119	-	4,247,119
Non-depreciable capital assets	313,787	910,368	1,224,155
Depreciable capital assets, net	33,522,703	16,151,903	49,674,606
	<u>\$ 46,215,679</u>	<u>\$ 27,587,229</u>	<u>\$ 73,802,908</u>
LIABILITIES			
Accounts payable	\$ 193,794	\$ 65,353	\$ 259,147
Accrued interest payable	-	85,903	85,903
Accrued payroll and benefits	141,004	15,109	156,113
Customer/employee deposits	2,000	95,923	97,923
Other liabilities	13,100	1,085	14,185
Long-term liabilities:			
Due within one year	348,926	315,048	663,974
Due in more than one year	1,208,309	6,430,617	7,638,926
	<u>1,907,133</u>	<u>7,009,038</u>	<u>8,916,171</u>
NET ASSETS			
Investment in capital assets, net of related debt	33,797,383	10,503,399	44,300,782
Restricted for:			
Grant programs	3,819,346	-	3,819,346
Impact fee development	4,319,918	-	4,319,918
Transportation	846,303	-	846,303
Other	872,114	-	872,114
Unrestricted	653,482	10,074,792	10,728,274
	<u>44,308,546</u>	<u>20,578,191</u>	<u>64,886,737</u>
Total net assets	<u>\$ 46,215,679</u>	<u>\$ 27,587,229</u>	<u>\$ 73,802,908</u>
Total liabilities and net assets	<u>\$ 46,215,679</u>	<u>\$ 27,587,229</u>	<u>\$ 73,802,908</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, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General government:				
City administration	\$ 387,444	-	-	\$ (387,444)
Finance	423,246	-	-	(423,246)
Community promotion and economic development	112,101	-	-	(112,101)
Human resources	182,810	-	-	(182,810)
Engineering and administration	202,983	-	-	(202,983)
Government buildings	123,508	-	-	(123,508)
General government	163,765	322,662	56,038	214,935
Public safety:				
Fire	1,729,515	11,234	-	(1,695,084)
Police	3,627,431	81,542	217,643	(3,198,907)
Parks and recreation	474,044	70,191	14,802	(389,051)
Transportation and streets	2,030,618	-	-	(2,030,618)
Senior nutrition program	293,014	-	289,917	(3,097)
Grants and program income	98,606	46,017	244,003	191,414
Total governmental activities	9,849,085	531,646	822,403	(8,342,500)
Business-type activities:				
Building	269,578	257,529	-	(12,049)
Planning	89,340	22,373	-	(66,967)
Waste water	1,546,492	2,102,029	-	555,537
Water	1,306,676	1,985,521	-	678,845
Airport	322,376	116,005	-	(15,359)
Community Center	251,027	84,918	80,971	(85,138)
Total business-type activities	3,785,489	4,568,375	80,971	1,054,869
Total primary government	\$ 13,634,574	\$ 5,100,021	\$ 903,374	\$ (7,287,631)

(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, 2011

	Governmental Activities	Business-type Activities	Total
Change in net assets:			
Net (expense)/revenue	\$ (8,342,500)	\$ 1,054,869	\$ (7,287,631)
General revenues and transfers:			
General revenues:			
Taxes:			
Sales taxes	2,460,266	-	2,460,266
Property taxes	1,354,960	41,544	1,396,504
Motel taxes	596,603	-	596,603
Special gas taxes	334,068	-	334,068
Franchise taxes	287,059	-	287,059
Other taxes	173,406	-	173,406
Motor vehicle license fees	1,114,162	-	1,114,162
Impact fees	47,108	-	47,108
Investment earnings	107,097	42,225	149,322
Transfers	457,303	(457,303)	-
Total general revenues and transfers	6,932,032	(373,534)	6,558,498
Change in net assets	(1,410,468)	681,335	(729,133)
Net assets, beginning of year, as originally reported	43,883,659	21,732,211	65,615,870
Prior period adjustment (Note 12)	1,835,355	(1,835,355)	-
Net assets, beginning of year, as restated	45,719,014	19,896,856	65,615,870
Net assets, end of year	\$ 44,308,546	\$ 20,578,191	\$ 64,886,737

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

CITY OF RED BLUFF
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2011

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	-	\$ 960,892	\$ 194,040	\$ 5,623,682	\$ 6,778,614
Receivables:					
Taxes	161,328	5,681	-	-	167,009
Accounts	18,958	140	19,086	7,559	45,743
Interest	-	-	592,389	50,796	643,185
Loans	-	-	3,608,532	638,587	4,247,119
Due from other governments	540,012	-	16,608	56,482	613,102
Prepaid expenses and deferred charges	1,869	-	-	-	1,869
Due from other funds	42,658	2,769	-	1,127	46,554
Total assets	\$ 764,825	\$ 969,482	\$ 4,430,655	\$ 6,378,233	\$ 12,543,195
LIABILITIES					
Accounts payable	\$ 124,919	\$ 58,438	-	\$ 10,437	\$ 193,794
Accrued payroll and benefits	132,925	5,309	-	2,770	141,004
Customer/employee deposits	2,000	-	-	-	2,000
Other liabilities	13,100	-	592,391	50,796	656,287
Due to other funds	64,445	-	18,918	80,643	164,006
Total liabilities	337,389	63,747	611,309	144,646	1,157,091
FUND BALANCES					
Nonspendable	1,869	-	-	-	1,869
Restricted	-	677,968	3,818,864	5,348,691	9,845,523
Committed	-	225,585	-	905,825	1,131,410
Assigned	400,000	2,182	482	9,634	412,298
Unassigned	25,567	-	-	(30,563)	(4,996)
Total fund balances	427,436	905,735	3,819,346	6,233,587	11,386,104
Total liabilities and fund balances	\$ 764,825	\$ 969,482	\$ 4,430,655	\$ 6,378,233	\$ 12,543,195

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

CITY OF RED BLUFF
RECONCILIATION OF FUND BALANCES TO NET ASSETS
JUNE 30, 2011

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 11,386,104
Assets recorded within the Statement of Net Assets not reported in the funds:		
Non-depreciable capital assets		313,787
Depreciable capital assets	\$ 61,402,110	
Accumulated depreciation	<u>(27,879,407)</u>	33,522,703
Liabilities recorded within the funds not reported in the Statement of Net Assets:		
Deferred interest		643,187
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Capital lease		(39,107)
Compensated absences		(1,239,276)
Other postemployment benefits obligation		<u>(278,852)</u>
Net assets reported within the Statement of Net Assets - Governmental Activities		<u>\$ 44,308,546</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, 2011

	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Sales taxes	\$ 2,460,266	-	-	-	\$ 2,460,266
Property taxes	1,354,960	-	-	-	1,354,960
Motel taxes	596,603	-	-	-	596,603
Franchise taxes	287,059	-	-	-	287,059
Other taxes	34,630	58,546	-	66,304	159,480
Licenses and permits	299,058	-	-	-	299,058
Fines, forfeitures and penalties	18,269	-	-	37,661	55,930
Use of money and property	8,410	2,182	482	20,163	31,237
Intergovernmental revenue	1,382,415	-	244,003	623,831	2,250,249
Charges for current services	92,273	-	-	-	92,273
Other revenues	211,054	-	-	107,285	318,339
Total revenues	6,744,997	60,728	244,485	855,244	7,905,454
Expenditures:					
Current:					
General government	1,425,589	-	-	19,500	1,445,089
Fire public safety	1,472,877	-	-	-	1,472,877
Police public safety	3,440,872	-	-	-	3,440,872
Parks and recreation	382,394	-	-	-	382,394
Transportation and streets	-	560,595	-	6,483	567,078
Senior nutrition program	-	-	-	286,465	286,465
Grants and program income	-	-	71,816	23,504	95,320
Capital outlay	58,826	237,945	-	311,051	607,822
Debt service					
Principal	-	-	-	37,505	37,505
Interest	-	-	-	3,272	3,272
Total expenditures	6,780,558	798,540	71,816	687,780	8,338,694
Excess (deficiency) of revenues over (under) expenditures	(35,561)	(737,812)	172,669	167,464	(433,240)
Other financing sources (uses):					
Operating transfers in	588,518	891,263	-	405,779	1,885,560
Operating transfers out	(319,511)	(9,983)	(288,317)	(810,446)	(1,428,257)
Total other financing sources (uses)	269,007	881,280	(288,317)	(404,667)	457,303

(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, 2011

	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	233,446	143,468	(115,648)	(237,203)	24,063
Fund balances, beginning of year, as originally reported	193,990	762,267	3,934,994	4,635,435	9,526,686
Prior period adjustment (Note 12)	-	-	-	1,835,355	1,835,355
Fund balance, beginning of year, as restated	193,990	762,267	3,934,994	6,470,790	11,362,041
Fund balances, end of year	<u>\$ 427,436</u>	<u>\$ 905,735</u>	<u>\$ 3,819,346</u>	<u>\$ 6,233,587</u>	<u>\$ 11,386,104</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, 2011

Total net change in fund balance included in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 24,063
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.	(1,255,033)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	75,860
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.	37,505
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>(292,863)</u>
Net change in net assets reported within the Statement of Activities - Governmental Activities	<u>\$ (1,410,468)</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, 2011

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,460,266	\$ 160,266
Property taxes	1,501,523	1,501,523	1,354,960	(146,563)
Motel taxes	500,000	500,000	596,603	96,603
Franchise taxes	220,000	220,000	287,059	67,059
Other taxes	43,000	43,000	34,630	(8,370)
Licenses and permits	282,650	282,650	299,058	16,408
Fines, forfeitures and penalties	18,200	18,200	18,269	69
Use of money and property	40,000	40,000	8,410	(31,590)
Intergovernmental revenue	1,245,292	1,311,140	1,382,415	71,275
Charges for current services	112,550	112,550	92,273	(20,277)
Other revenues	140,200	140,200	211,054	70,854
Total revenues	6,403,415	6,469,263	6,744,997	275,734
Expenditures:				
Current:				
General government	1,338,907	1,338,907	1,425,589	(86,682)
Fire public safety	1,421,234	1,421,234	1,472,877	(51,643)
Police public safety	3,297,033	3,362,881	3,440,872	(77,991)
Parks and recreation	394,834	394,834	382,394	12,440
Transportation and streets	-	-	-	-
Grants and program income	-	-	-	-
Capital outlay	179,670	179,670	58,826	120,844
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	6,631,678	6,697,526	6,780,558	(83,032)
Excess (deficiency) of revenues over (under) expenditures	(228,263)	(228,263)	(35,561)	192,702

(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	58,546	(31,454)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	2,182	2,182	-	-	482	482
216,090	216,090	-	(216,090)	1,000,373	1,000,373	244,003	(756,370)
-	-	-	-	-	-	-	-
500	500	-	(500)	-	-	-	-
<u>306,590</u>	<u>306,590</u>	<u>60,728</u>	<u>(245,862)</u>	<u>1,000,373</u>	<u>1,000,373</u>	<u>244,485</u>	<u>(755,888)</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
673,604	673,604	560,595	113,009	-	-	-	-
-	-	-	-	1,070,974	1,070,974	71,816	999,158
511,100	511,100	237,945	273,155	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,184,704</u>	<u>1,184,704</u>	<u>798,540</u>	<u>386,164</u>	<u>1,070,974</u>	<u>1,070,974</u>	<u>71,816</u>	<u>999,158</u>
<u>(878,114)</u>	<u>(878,114)</u>	<u>(737,812)</u>	<u>140,302</u>	<u>(70,601)</u>	<u>(70,601)</u>	<u>172,669</u>	<u>243,270</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, 2011

	General Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Other financing sources (uses):				
Operating transfers in	574,910	574,910	588,518	13,608
Operating transfers out	(264,856)	(264,856)	(319,511)	(54,655)
Total other financing sources (uses)	<u>310,054</u>	<u>310,054</u>	<u>269,007</u>	<u>(41,047)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	81,791	81,791	233,446	151,655
Fund balances, beginning of the year, as restated	<u>193,990</u>	<u>193,990</u>	<u>193,990</u>	<u>-</u>
Fund balances, end of year	<u>\$ 275,781</u>	<u>\$ 275,781</u>	<u>\$ 427,436</u>	<u>\$ 151,655</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		
699,495	699,495	891,263	191,768	-	-	-	-
-	-	(9,983)	(9,983)	-	-	(288,317)	(288,317)
699,495	699,495	881,280	181,785	-	-	(288,317)	(288,317)
(178,619)	(178,619)	143,468	322,087	(70,601)	(70,601)	(115,648)	(45,047)
762,267	762,267	762,267	-	3,934,994	3,934,994	3,934,994	-
<u>\$ 583,648</u>	<u>\$ 583,648</u>	<u>\$ 905,735</u>	<u>\$ 322,087</u>	<u>\$3,864,393</u>	<u>\$3,864,393</u>	<u>\$3,819,346</u>	<u>\$ (45,047)</u>

CITY OF RED BLUFF
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2011

	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,977,141	\$ 5,194,996	\$ 216,157	\$ 9,388,294
Receivables:				
Accounts, net	441,422	417,594	1,617	860,633
Due from other governments	-	-	143,075	143,075
Due from other funds	2,003	3,833,594	192,255	4,027,852
Total current assets	<u>4,420,566</u>	<u>9,446,184</u>	<u>553,104</u>	<u>14,419,854</u>
Noncurrent assets:				
Prepaid expenses and deferred charges	15,504	-	-	15,504
Non-depreciable capital assets	377,325	146,117	386,926	910,368
Depreciable capital assets, net	5,417,238	8,715,712	2,018,953	16,151,903
Total noncurrent assets	<u>5,810,067</u>	<u>8,861,829</u>	<u>2,405,879</u>	<u>17,077,775</u>
Total assets	<u>\$10,230,633</u>	<u>\$18,308,013</u>	<u>\$ 2,958,983</u>	<u>\$31,497,629</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, 2011

	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 16,564	\$ 34,081	\$ 14,708	\$ 65,353
Accrued interest payable	28,292	57,611	-	85,903
Accrued payroll and benefits	3,897	4,263	6,949	15,109
Customer/employee deposits	-	83,276	12,647	95,923
Other liabilities	-	-	1,085	1,085
Compensated absences payable, current	15,524	8,120	23,054	46,698
Bonds and loan payable, current	163,691	104,659	-	268,350
Due to other funds	-	3,831,522	78,878	3,910,400
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	227,968	4,123,532	137,321	4,488,821
Noncurrent liabilities:				
Compensated absences, net	46,573	24,360	69,162	140,095
Bonds and loans payable, net	2,970,197	3,320,325	-	6,290,522
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total noncurrent liabilities	3,016,770	3,344,685	69,162	6,430,617
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	3,244,738	7,468,217	206,483	10,919,438
NET ASSETS				
Investment in capital assets, net of related debt	2,660,675	5,436,845	2,405,879	10,503,399
Unrestricted	4,325,220	5,402,951	346,621	10,074,792
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	6,985,895	10,839,796	2,752,500	20,578,191
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	\$10,230,633	\$18,308,013	\$ 2,958,983	\$31,497,629
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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, 2011

	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
Operating revenues:				
Charges for current services:				
Waste water and water charges	\$ 2,102,029	\$ 1,985,521	-	\$ 4,087,550
Permits and fees	-	-	276,522	276,522
Rental revenue	-	-	173,870	173,870
Other revenue	-	-	30,433	30,433
Total operating revenues	<u>2,102,029</u>	<u>1,985,521</u>	<u>480,825</u>	<u>4,568,375</u>
Operating expenses:				
Cost of power and transportation	185,988	303,827	47,575	537,390
Maintenance, operations, and administration	927,260	581,430	761,554	2,270,244
Depreciation expense	346,137	311,235	123,192	780,564
Total operating expenses	<u>1,459,385</u>	<u>1,196,492</u>	<u>932,321</u>	<u>3,588,198</u>
Operating income (loss)	<u>642,644</u>	<u>789,029</u>	<u>(451,496)</u>	<u>980,177</u>
Nonoperating revenues (expenses):				
Property taxes	-	-	41,544	41,544
Intergovernmental revenues	-	-	80,971	80,971
Investment income	13,284	27,483	1,458	42,225
Interest expense	(87,107)	(110,184)	-	(197,291)
Total nonoperating revenues (expenses)	<u>(73,823)</u>	<u>(82,701)</u>	<u>123,973</u>	<u>(32,551)</u>
Income before operating transfers	568,821	706,328	(327,523)	947,626
Capital contributions	-	-	191,012	191,012
Operating transfers in	-	-	161,373	161,373
Operating transfers out	(210,812)	(287,496)	(120,368)	(618,676)
Change in net assets	<u>358,009</u>	<u>418,832</u>	<u>(95,506)</u>	<u>681,335</u>
Total net assets, beginning of year, as originally stated	7,877,369	11,006,836	2,848,006	21,732,211
Prior period adjustment (Note 12)	<u>(1,249,483)</u>	<u>(585,872)</u>	<u>-</u>	<u>(1,835,355)</u>
Total net assets, beginning of year, as restated	<u>6,627,886</u>	<u>10,420,964</u>	<u>2,848,006</u>	<u>19,896,856</u>
Total net assets, end of year	<u>\$ 6,985,895</u>	<u>\$10,839,796</u>	<u>\$ 2,752,500</u>	<u>\$20,578,191</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, 2011

	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 2,104,646	\$ 2,000,678	\$ 470,669	\$ 4,575,993
Cash paid to employees (including employee benefits)	(280,266)	(437,960)	(487,877)	(1,206,103)
Cash paid to suppliers	(903,181)	(514,528)	(301,611)	(1,719,320)
Net cash provided (used) by operating activities	<u>921,199</u>	<u>1,048,190</u>	<u>(318,819)</u>	<u>1,650,570</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Property taxes received	-	-	41,544	41,544
Cash received from (paid to) other funds	(2,003)	(2,072)	(25,328)	(29,403)
Operating transfers in	-	-	161,373	161,373
Operating transfers out	(210,812)	(287,496)	(120,368)	(618,676)
Net cash provided (used) by noncapital financing activities	<u>(212,815)</u>	<u>(289,568)</u>	<u>57,221</u>	<u>(445,162)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Intergovernmental revenue received	-	-	210,734	210,734
Payments for the purchase of capital assets	-	-	(18,036)	(18,036)
Debt principal paid	(324,536)	(101,541)	-	(426,077)
Debt interest paid	(95,667)	(117,285)	-	(212,952)
Net cash provided (used) by capital and related financing activities	<u>(420,203)</u>	<u>(218,826)</u>	<u>192,698</u>	<u>(446,331)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	13,284	27,483	1,458	42,225
Net cash provided by investing activities	<u>13,284</u>	<u>27,483</u>	<u>1,458</u>	<u>42,225</u>
Net increase (decrease) in cash and cash equivalents	301,465	567,279	(67,442)	801,302
Cash and cash equivalents, beginning of year	<u>3,675,676</u>	<u>4,627,717</u>	<u>283,599</u>	<u>8,586,992</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,977,141</u></u>	<u><u>\$ 5,194,996</u></u>	<u><u>\$ 216,157</u></u>	<u><u>\$ 9,388,294</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, 2011

	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)	\$ 642,644	\$ 789,029	\$ (451,496)	\$ 980,177
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	346,137	311,235	123,192	780,564
(Increase) decrease in:				
Accounts receivable	2,617	13,199	6,391	22,207
Prepaid expenses and deferred charges	1,938	-	-	1,938
Increase (decrease) in:				
Accounts payable	(59,485)	(27,439)	2,916	(84,008)
Accrued payroll and benefits	(4,364)	(12,027)	(9,777)	(26,168)
Customer/employee deposits	-	1,958	(16,547)	(14,589)
Other liabilities	-	(50)	-	(50)
Compensated absences payable	(8,288)	(27,715)	26,502	(9,501)
Total adjustments	278,555	259,161	132,677	670,393
Net cash provided (used) by operating activities	<u>\$ 921,199</u>	<u>\$ 1,048,190</u>	<u>\$ (318,819)</u>	<u>\$ 1,650,570</u>

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

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011

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, 2011

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 with taxes and grant revenue restricted for transportation.

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, 2011

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, 2011

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 assigned 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 \$83,032. These over-expenditures were funded with unbudgeted revenue which was received. 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, 2011

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, 2011 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, 2011 for the water and wastewater departments were \$13,355 and \$13,520, respectively.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, 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, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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 restricted 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.

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.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

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.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS/FUND BALANCE

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.

The government-wide statement of net assets reports \$9,857,681 of restricted net assets, of which \$4,319,918 is restricted by enabling legislation.

Beginning with the year ending June 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS/FUND EQUITY (Continued)

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as prepaid expenses) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., council resolution). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by the Finance Director to whom the City Council has delegated the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balance has been restated to reflect the above classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 consisted of the following:

Cash in banks	\$ 194,952
State of California – Local Agency Investment Fund (LAIF)	<u>15,971,956</u>
Total cash and cash equivalents	<u>\$ 16,166,908</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, 2011, none of the City's cash balances in banks were exposed to custodial credit risk.

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, 2011, 5.01% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. In addition, PMIA's weighted average maturities was 0.769 years at June 30, 2011. (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, 2011

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, 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	1,487,066	11,610	3,696	-	1,494,980
Vehicles	2,735,995	64,922	-	-	2,800,917
Infrastructure	<u>52,056,973</u>	<u>354,820</u>	<u>-</u>	<u>-</u>	<u>52,411,793</u>
	<u>60,974,454</u>	<u>431,352</u>	<u>3,696</u>	<u>-</u>	<u>61,402,110</u>
Less accumulated depreciation:					
Buildings	1,712,998	15,706	-	-	1,728,704
Improvements	972,213	128,733	-	-	1,100,946
Equipment	1,088,934	132,421	-	-	1,221,355
Vehicles	2,045,703	121,734	-	-	2,167,437
Infrastructure	<u>20,376,871</u>	<u>1,284,094</u>	<u>-</u>	<u>-</u>	<u>21,660,965</u>
	<u>26,196,719</u>	<u>1,682,688</u>	<u>-</u>	<u>-</u>	<u>27,879,407</u>
Depreciable capital assets, net	<u>34,777,735</u>	<u>(1,251,336)</u>	<u>(3,696)</u>	<u>-</u>	<u>33,522,703</u>
Governmental capital assets, net	<u>\$ 35,091,522</u>	<u>\$ (1,251,336)</u>	<u>\$ (3,696)</u>	<u>\$ -</u>	<u>\$ 33,836,490</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 86,674
Fire	157,959
Police	27,549
Parks and recreation	101,989
Transportation and streets	<u>1,308,517</u>
Total governmental activities depreciation expense	<u>\$ 1,682,688</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-depreciable capital assets total	<u>910,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>910,368</u>
Depreciable capital assets:					
Buildings	1,467,760	-	-	-	1,467,760
Improvements	16,883,373	18,036	-	-	16,901,409
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>32,454,286</u>	<u>18,036</u>	<u>-</u>	<u>-</u>	<u>32,472,322</u>
Less accumulated depreciation:					
Buildings	1,233,402	13,167	-	-	1,246,569
Improvements	6,890,418	443,159	-	-	7,333,577
Equipment	643,167	58,326	-	-	701,493
Vehicles	562,725	17,784	-	-	580,509
Infrastructure	<u>6,210,143</u>	<u>248,128</u>	<u>-</u>	<u>-</u>	<u>6,458,271</u>
	<u>15,539,855</u>	<u>780,564</u>	<u>-</u>	<u>-</u>	<u>16,320,419</u>
Depreciable capital assets, net	<u>16,914,431</u>	<u>(762,528)</u>	<u>-</u>	<u>-</u>	<u>16,151,903</u>
Business-type capital assets, net	<u>\$ 17,824,799</u>	<u>\$ (762,528)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,062,271</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Building	\$ 2,491
Waste water	346,137
Water	311,235
Airport	119,511
Community center	<u>1,190</u>
Total business-type activities depreciation expense	<u>\$ 780,564</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 LONG-TERM LIABILITIES

ACTIVITY

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2011:

	<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>76,612</u>	\$ <u>-</u>	\$ <u>37,505</u>	\$ <u>39,107</u>	\$ <u>39,107</u>
Other liabilities:					
Compensated absences	1,057,249	422,797	240,770	1,239,276	309,819
Other postemployment benefits	<u>168,013</u>	<u>110,839</u>	<u>-</u>	<u>278,852</u>	<u>-</u>
Total other liabilities	<u>1,225,262</u>	<u>533,636</u>	<u>240,770</u>	<u>1,518,128</u>	<u>309,819</u>
Total governmental activities	<u>1,301,874</u>	<u>533,636</u>	<u>278,275</u>	<u>1,557,235</u>	<u>348,926</u>
Business-type activities:					
Revenue bonds and loans payable:					
Revenue Bonds	165,000	-	165,000	-	-
State Revolving Loan Fund	1,297,153	-	119,533	1,177,620	121,691
USDA Loan	1,996,271	-	40,000	1,956,271	42,000
CIEDB Loan	<u>3,526,525</u>	<u>-</u>	<u>101,544</u>	<u>3,424,981</u>	<u>104,659</u>
	<u>6,984,949</u>	<u>-</u>	<u>426,077</u>	<u>6,558,872</u>	<u>268,350</u>
Other Liabilities:					
Compensated absences	<u>196,294</u>	<u>78,889</u>	<u>88,390</u>	<u>186,793</u>	<u>46,698</u>
Total business-type activities	<u>7,181,243</u>	<u>78,889</u>	<u>514,467</u>	<u>6,745,665</u>	<u>315,048</u>
Total long-term liabilities	\$ <u>8,483,117</u>	\$ <u>612,525</u>	\$ <u>792,742</u>	\$ <u>8,302,900</u>	\$ <u>663,974</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 \$129,321 as of June 30, 2011. 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 \$40,777, including interest in the amount of \$1,670. The present value of the remaining payments is \$39,107. Amortization of leased assets is included with depreciation expense.

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 were due semi-annually each January 1st and July 1st through the year 2011. The interest rates on the bonds varied from 5 to 7.4 percent.

The bonds were collateralized by a pledge of revenues 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 \$171,548, while total pledged system revenues were \$171,548. Total principal and interest remaining on the bonds is \$0, therefore there are no system revenues pledged for further repayment obligations.

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, 2011

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 \$2,102,029. Total principal and interest remaining on the bonds is \$1,286,308, 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 \$208,247, while total pledged system revenues were \$816,512. Total principal and interest remaining on the bonds is \$4,772,953, 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, 2011

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>
2012	\$ 307,457	\$ 189,346	\$ 496,804
2013	274,757	180,839	455,596
2014	281,301	173,830	455,131
2015	288,989	166,628	455,616
2016	295,822	159,230	455,051
2017 – 2021	1,455,068	677,955	2,133,023
2022 – 2026	1,057,885	499,901	1,557,787
2027 – 2031	1,233,770	321,360	1,555,130
2032 – 2036	1,013,660	126,072	1,139,732
2037 – 2040	<u>389,268</u>	<u>25,784</u>	<u>415,052</u>
Total	\$ <u>6,597,977</u>	\$ <u>2,520,945</u>	\$ <u>9,118,922</u>

INTEREST EXPENSE

The total interest incurred for the year ended June 30, 2011 was \$200,563. 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, 2011, was \$126,512, interest on the net OPEB obligation was \$8,401, adjustment to the ARC was \$11,474, and contributions made by the City during the year were \$12,600, which resulted in a net increase in the OPEB obligation of \$110,839 and an ending OPEB obligation of \$278,852. 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, 2011

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, 2011

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, 2011 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, 2011, including incurred but not reported claims (IBNRs). Claims paid for the workers' compensation and general liability programs for the fiscal year ended June 30, 2011 were \$215,492 and \$324,136, respectively.

It is the City's policy not to record the fluctuations in its banking layer. As of June 30, 2011, the City had recorded a liability in its funds for anticipated workers' compensation claims in the amount of \$8,015 while the JPA reported that the City has a surplus in its workers' compensation program in the amount of \$267,737. 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 \$12,163 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, 2011:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Internal Balances</u>
Governmental activities:			
General	\$ 42,658	\$ 64,445	\$ (21,787)
Transportation	2,769	-	2,769
Grants	-	18,918	(18,918)
Other governmental	<u>1,127</u>	<u>80,643</u>	<u>(79,516)</u>
Total governmental activities	<u>46,554</u>	<u>164,006</u>	<u>(117,452)</u>
Business-type activities:			
Waste water	2,003	-	2,003
Water	3,833,594	3,831,522	2,072
Other enterprise	<u>192,255</u>	<u>78,878</u>	<u>113,377</u>
Total business-type activities	<u>4,027,852</u>	<u>3,910,400</u>	<u>117,452</u>
Total government-wide statement	\$ <u>4,074,406</u>	\$ <u>4,074,406</u>	\$ <u> -</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

TRANSFERS

The following is a summary of transfers for the year ended June 30, 2011:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Net Transfers</u>
Governmental activities:			
General	\$ 588,518	\$ 319,511	\$ 269,007
Transportation	891,263	9,983	881,280
Grants	-	288,317	(288,317)
Other governmental	<u>405,779</u>	<u>810,446</u>	<u>(404,667)</u>
Total governmental activities	<u>1,885,560</u>	<u>1,428,257</u>	<u>457,303</u>
Business-type activities:			
Waste water	-	210,812	(210,812)
Water	-	287,496	(287,496)
Other enterprise	<u>161,373</u>	<u>120,368</u>	<u>41,005</u>
Total business-type activities	<u>161,373</u>	<u>618,676</u>	<u>(457,303)</u>
Total government-wide statement	\$ <u>2,046,933</u>	\$ <u>2,046,933</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.

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CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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. For some bargaining units, 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 6.367% for miscellaneous employees, 20.798% for safety fire plan employees and 35.273% 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, 2011, the City's annual pension cost of \$693,735 was equal to the City's actual and required contributions. The required contribution was determined as part of the June 30, 2008 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, 2011, the amortization periods were 13, 13 and 11 years for the miscellaneous, the safety police and the safety fire plans, respectively.

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2011

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>
6/30/09	\$ 166,925	100 %	\$ -
6/30/10	\$ 153,188	100 %	\$ -
6/30/11	\$ 135,964	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>
6/30/09	\$ 147,612	100 %	\$ -
6/30/10	\$ 145,567	100 %	\$ -
6/30/11	\$ 127,130	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>
6/30/09	\$ 536,635	100 %	\$ -
6/30/10	\$ 502,225	100 %	\$ -
6/30/11	\$ 430,641	100 %	\$ -

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2011

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, 2011, membership of the Plan consists of 12 retirees currently receiving benefits and 85 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, 2011, the City paid \$12,600 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)	\$ 126,512
Adjustment to ARC	(11,474)
Interest on obligation from prior year	<u>8,401</u>
Annual OPEB cost for the year	123,439
Contributions made for the year	<u>(12,600)</u>
Increase in net OPEB obligation	110,839
Net OPEB obligation, beginning of the year	<u>168,013</u>
Net OPEB obligation, end of year	<u>\$ 278,852</u>

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2011

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 2011 is as follows:

	June 30,		
	2011	2010	2009
Annual OPEB cost	\$ 126,512	\$ 94,216	\$ 94,216
Percentage of annual OPEB costs contributed	9.96%	7.11%	18.63%
Net OPEB obligation, end of year	\$ 278,852	\$ 168,013	\$ 76,667

D. Funded Status Information

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

Actuarial valuation date	November 17, 2011
Actuarial accrued liability (AAL)	\$ 957,452
Actuarial value of plan assets	\$ -
Actuarial value of plan assets as a percentage of AAL	0.0%
Unfunded AAL (UAAL)	\$ 957,452
Covered payroll	\$ 5,369,985
UAAL as percentage of covered payroll	17.83%

As of June 30, 2011, the City has not set aside any amounts in an external trust fund.

(Continued on following page)

CITY OF RED BLUFF
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2011

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 November 17, 2011 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 FUND BALANCE/RETAINED EARNINGS

At June 30, 2011, the funds listed below reported deficit fund balances or retained earnings:

Fund	Amount
Governmental funds:	
Fire Protection Impact Fee	\$ 30,563

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 FUND BALANCE/RETAINED EARNINGS
(Continued)

As of June 30, 2011, fund balances are composed of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>
General Fund:				
Prepaid items	\$ 1,869	\$ -	\$ -	\$ -
Contingency	-	-	-	400,000
Transportation Fund:				
Transportation	-	677,968	225,585	2,182
Grants Fund:				
Long term receivables	-	3,608,532	-	-
Grants	-	210,332	-	482
Other Governmental funds:				
Traffic Control Impact Fees	-	1,816,250	-	6,298
Waste Water Facility				
Impact Fees	-	781,059	-	-
Long term receivables	-	638,587	-	-
Water Capital Impact Fees	-	605,465	-	-
Waste Water Collection				
Impact Fees	-	488,867	-	-
Flood Protection				
Impact Fees	-	210,281	-	730
Prop 1A - Roads	-	165,128	-	1,165
City Admin and Equipment	-	164,208	-	570
Impact Fees				
Program Income	-	142,301	-	128
Park Capital Improvement				
Fund	-	105,832	-	273
PEGS Fees	-	86,417	-	268
Police Protection				
Impact Fees	-	61,215	-	-
Meadow Brook Street Fund	-	40,260	-	49
Airport Impact Fees	-	38,427	-	134
Senior Nutrition Program	-	4,394	-	19
Waste Water Treatment				
Plant Capital Reserves	-	-	813,210	-
General Plan Update	-	-	92,615	-
	<u>\$ 1,869</u>	<u>\$ 9,845,523</u>	<u>\$ 1,131,410</u>	<u>\$ 412,298</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011

NOTE 12 PRIOR PERIOD ADJUSTMENT

During the current year, the City determined that the presentation of several impact fee funds that were previously included and report within the Water and Waste Water funds on the financial statements should be reported as a governmental capital projects fund. This change was brought about by the City's review of the fund balance reporting and fund type definition due to the issuance of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The effect of this change in presentation has no impact on operations of the current or prior year and changes beginning fund balance as follows:

Entity Wide:

	Government- Wide Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Net assets, June 30, 2010, as previously reported	\$ 43,883,659	\$ 21,732,211	\$ 65,615,870
Change in presentation of impact fee funds	<u>1,835,355</u>	<u>(1,835,355)</u>	<u>-</u>
Net assets, June 30, 2010, as restated	\$ <u>45,719,014</u>	\$ <u>19,896,856</u>	\$ <u>65,615,870</u>

Governmental Funds:

	Other Governmental <u>Funds</u>	<u>Total</u>
Net assets, June 30, 2010, as previously reported	\$ 4,635,435	\$ 9,526,686
Change in presentation of impact fee funds	<u>1,835,355</u>	<u>1,835,355</u>
Net assets, June 30, 2010, as restated	\$ <u>6,470,790</u>	\$ <u>11,362,041</u>

(Continued on following page)

CITY OF RED BLUFF
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 PRIOR PERIOD ADJUSTMENT
(Continued)

Proprietary Funds:

	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
Net assets, June 30, 2010, as previously reported	\$ 7,877,369	\$ 11,006,836	\$ 2,848,006	\$ 21,732,211
Change in presentation of impact fee funds	<u>(1,249,483)</u>	<u>(585,872)</u>	-	<u>(1,835,355)</u>
Net assets, June 30, 2010, as restated	<u>\$ 6,627,886</u>	<u>\$ 10,420,964</u>	<u>\$ 2,848,006</u>	<u>\$ 19,896,856</u>

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CITY OF RED BLUFF
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grant/Project Number	Expenditures
<u>U. S. Department of Housing and Urban Development:</u>			
Pass-through from the State of California Department of Housing and Community Development: HOME Investment Partnership Program	14.239	08-HOME-1499	\$ 274,324
Total Department of Housing and Urban Development			<u>274,324</u>
<u>Federal Aviation Administration:</u>			
Airport Improvement Grant Program	20.106	03-06-0193-10	90,615
Airport Improvement Grant Program	20.106	03-06-0193-11	54,479
Total Federal Aviation Administration			<u>145,094</u>
<u>Department of Homeland Security:</u>			
Federal Emergency Management Agency's Fire Administration Grant	97.044	EMV-2010-FO-03365	32,335
Total Department of Homeland Security			<u>32,335</u>
<u>Department of Justice:</u>			
COPS Hiring Program	16.710	2010-UM-WX-0042	65,272
Total Department of Justice			<u>65,272</u>
Total Federal Expenditures			<u><u>\$ 517,025</u></u>

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

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

Honorable Mayor and City Council
City of Red Bluff, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Red Bluff, California, as of and for the year ended June 30, 2011, which collectively comprise the City of Red Bluff's basic financial statements and have issued our report thereon dated February 16, 2012. 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.

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.

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

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 matters that we reported to management of the City of Red Bluff in a separate letter dated February 16, 2012.

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.

Matson and Isom

February 16, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Red Bluff, California

Compliance

We have audited the City of Red Bluff's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Red Bluff's major federal programs for the year ended June 30, 2011. The City of Red Bluff's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Red Bluff's management. Our responsibility is to express an opinion on the City of Red Bluff's compliance based on our audit.

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

In our opinion, the City of Red Bluff complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Red Bluff is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Red Bluff's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Red Bluff's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the audit committee, City Council, 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.

Matson and Isom

February 16, 2012

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of the City of Red Bluff.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Red Bluff, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The Independent Auditors' Report on compliance for the major federal award programs for the City of Red Bluff expresses an unqualified opinion on all major federal programs.
6. Audit findings, if any, relative to the major federal award programs for the City of Red Bluff that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C of this Schedule.
7. The program tested as a major program was the HOME Investment Partnerships Program (CFDA No. 14.239).
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Red Bluff did not qualify as a low-risk auditee.

CITY OF RED BLUFF
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

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

NONE

CITY OF RED BLUFF
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT

2010-1 – 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: During our audit of the current year, we were not required to make material adjustments to the City's financial statements.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE