



MATSON
& ISOM

CITY OF RED BLUFF

Red Bluff, California

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2012

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City of Red Bluff

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CITY COUNCIL

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

ADMINISTRATIVE PERSONNEL

City Manager.....Richard Crabtree
City Attorney.....Richard Crabtree
City Treasurer..... Donna Gordy
Finance DirectorSandra Ryan
Director of Public Works..... Bruce Henz
Planning DirectorScot Timboe
Director of Parks & Recreation Bruce Henz
Police Chief Paul Nanfito
Fire Chief..... Jon Bennett
City Clerk Jo Anna Lopez
Building Director..... J.D. Ellison



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Red Bluff, California

MATSON
& ISOM

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 (the City), as of June 30, 2012, and for the year then ended, 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'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 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, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 (GAAP).

In accordance with *Government Auditing Standards*, we have issued our report dated December 14, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 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 evidence sufficient to express an opinion or provide any assurance.

Matson and Isom

December 14, 2012
Redding, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Red Bluff

June 30, 2012

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, 2012.

FINANCIAL HIGHLIGHTS

The assets of the City of Red Bluff exceeded its liabilities at the close of the most recent fiscal year by \$64,220,806 (net assets). Of this amount, \$10,790,281 (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 \$665,931.

As of the close of the current fiscal year, the City of Red Bluff's governmental activities reported combined total net assets of \$42,961,835. The City's governmental activities reported a negative unrestricted amount of \$456,107.

At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$72,905 or 1.0% of the total General Fund expenditures. The assigned fund balance, assigned for contingencies, for the General Fund was \$400,000 or 5.6% 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 the 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.

June 30, 2012

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 19 of this report.

Proprietary Funds

The City maintains one type of proprietary funds, enterprise 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 20 through 23 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 24 through 44 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Red Bluff

June 30, 2012

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As stated above, the City of Red Bluff assets exceeded liabilities by \$64,220,806 as of June 30, 2012.

The largest portion of the City's net assets (65.8%) 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.

The following table provides a summary of the City's Net Assets for the years ended June 30, 2012 and 2011.

CITY OF RED BLUFF'S NET ASSETS

June 30	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 12,712,030	\$ 12,379,189	\$ 11,826,045	\$ 10,524,958	\$ 24,538,075	\$ 22,904,147
Capital assets	32,280,481	33,836,490	16,303,107	17,062,271	48,583,588	50,898,761
Total Assets	44,992,511	46,215,679	28,129,152	27,587,229	73,121,663	73,802,908
LIABILITIES						
Long-term liabilities	1,614,831	1,557,235	6,473,852	6,745,665	8,088,683	8,302,900
Other liabilities	415,845	349,898	396,329	263,373	812,174	613,271
Total Liabilities	2,030,676	1,907,133	6,870,181	7,009,038	8,900,857	8,916,171
NET ASSETS						
Invested in capital asset - net of related debt	33,280,481	33,797,383	10,012,583	10,503,399	43,293,064	44,300,782
Restricted	10,137,461	9,857,681	-	-	10,137,461	9,857,681
Unrestricted	(456,107)	653,482	11,246,388	10,074,792	10,790,281	10,728,274
Total Net Assets	\$ 42,961,835	\$ 44,308,546	\$ 21,258,971	\$ 20,578,191	\$ 64,220,806	\$ 64,886,737

An additional portion of \$10,137,461 of the City's net assets (15.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$10,790,281 may be used to meet the government's ongoing obligation to citizens and creditors.

As of June 30, 2012, the City is able to report positive balances in all three categories of net assets for the government as a whole.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended June 30, 2012 and 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

City of Red Bluff

CITY OF RED BLUFF'S CHANGES IN NET ASSETS

Years Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for services	\$ 487,771	\$ 531,646	\$ 4,752,961	\$ 4,568,375	\$ 5,240,732	\$ 5,100,021
Operating grants and contributions	848,830	822,403	85,940	80,971	934,770	903,374
Capital grants and contributions	204,997	152,536	78,033	191,012	283,030	343,548
General Revenues:						
Sales taxes	2,627,222	2,460,266	-	-	2,627,222	2,460,266
Property taxes	1,324,799	1,354,960	57,190	41,544	1,381,989	1,396,504
Motel taxes	594,254	596,603	-	-	594,254	596,603
Special gas taxes	404,286	334,068	-	-	404,286	334,068
Franchise taxes	291,559	287,059	-	-	291,559	287,059
Other taxes	263,808	173,406	-	-	263,808	173,406
Motor vehicle license fees	1,030,288	1,114,162	-	-	1,030,288	1,114,162
Impact fees	154	47,108	-	-	154	47,108
Investment earnings	140,233	107,097	48,687	42,225	188,920	149,322
Total Revenues	8,218,201	7,981,314	5,022,811	4,924,127	13,241,012	12,905,441
EXPENSES						
General Government:						
City administration	367,942	387,444	-	-	367,942	387,444
Finance	376,869	423,246	-	-	376,869	423,246
Community promotion and economic development	88,570	112,101	-	-	88,570	112,101
Human resources	171,011	182,810	-	-	171,011	182,810
Engineering and administration	234,566	202,983	-	-	234,566	202,983
Government buildings	133,317	123,508	-	-	133,317	123,508
General government	181,628	163,765	-	-	181,628	163,765
Public safety:						
Fire	1,745,768	1,729,515	-	-	1,745,768	1,729,515
Police	3,895,358	3,627,431	-	-	3,895,358	3,627,431
Parks and recreation	436,223	474,044	-	-	436,223	474,044
Transportation and streets	2,031,628	2,030,618	-	-	2,031,628	2,030,618
Senior nutrition program	299,842	293,014	-	-	299,842	293,014
Grants and program income	55,359	98,606	-	-	55,359	98,606
Building	-	-	270,277	269,578	270,277	269,578
Planning	-	-	113,413	89,340	113,413	89,340
Waste water	-	-	1,684,254	1,546,492	1,684,254	1,546,492
Water	-	-	1,343,581	1,306,676	1,343,581	1,306,676
Airport	-	-	224,963	322,376	224,963	322,376
Community center	-	-	252,374	251,027	252,374	251,027
Total Expenses	10,018,081	9,849,085	3,888,862	3,785,489	13,906,943	13,634,574
Excess (deficiency) before transfers	(1,799,880)	(1,867,771)	1,133,949	1,138,638	(665,931)	(729,133)
Transfers	453,169	457,303	(453,169)	(457,303)	-	-
(Decrease) increase in net assets	(1,346,711)	(1,410,468)	680,780	681,335	(665,931)	(729,133)
GASB 54 adjustment	-	1,835,355	-	(1,835,355)	-	-
Net Assets - Beg. of Year	44,308,546	43,883,659	20,578,191	21,732,211	64,886,737	65,615,870
Net Assets - End of Year	\$ 42,961,835	\$ 44,308,546	\$ 21,258,971	\$ 20,578,191	\$ 64,220,806	\$ 64,886,737

June 30, 2012

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 \$11,538,902. Approximately 3.7% 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 \$241,837 which was a result of authorized budgeted expenditures exceeding appropriations. Actual revenues were \$6,922,795 with final budget being \$6,712,464 with a favorable variance of \$210,331 and actual expenditures being less than budgeted expenditures with a favorable variance of \$58,971.

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 \$4,829,468 and Water Fund \$6,096,407. All other enterprise funds had unrestricted net assets in 2012 of \$320,513.

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 \$179,379 and \$385,657, respectively. The increases were due to new grants which increased revenue and expenditures by the same amount, an increase in insurance expense, and an increase in compensated absences expense. Overall, authorized General Fund expenditures for fire public safety, police public safety, and general government departments were under budget. However, General Fund expenditures for parks and recreation and capital outlay were over budget. Parks and recreation not budgeted in the current year included the City Pool which was not budgeted for opening in the current year. Non-profit donations changed the scheduling. Capital outlay not budgeted in the current year included construction in progress (preliminary permits and design) for the new boat ramp, and City Hall grounds improvements.

The City's total budgeted revenue at final budget was \$6,712,464. The majority of the revenue received over budget was sales taxes, property taxes, intergovernmental revenue which includes motor vehicle license fees, and charges for current services which includes the City's swimming pool revenue. (The City Pool was not budgeted for opening in the current year. Non-profit donations changed the scheduling.) The majority of the revenue received under budget was licenses and permits, which includes business licenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Red Bluff

June 30, 2012

CAPITAL ASSETS

The City of Red Bluff's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$48,583,588 (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**

Years Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 305,206	\$ 305,206	\$ 910,368	\$ 910,368	\$ 1,215,574	\$ 1,215,574
Buildings	239,661	257,484	208,024	221,191	447,685	478,675
Improvements	1,501,294	1,607,286	9,143,055	9,567,832	10,644,349	11,175,118
Equipment	171,695	273,625	125,158	183,242	296,853	456,867
Vehicles	464,949	633,480	62,522	80,196	527,471	713,676
Infrastructure	29,570,715	30,750,828	5,853,980	6,099,442	35,424,695	36,850,270
Construction in progress	26,961	8,581	-	-	26,961	8,581
Total	\$ 32,280,481	\$ 33,836,490	\$ 16,303,107	\$ 17,062,271	\$ 48,583,588	\$ 50,898,761

Additional information on the City of Red Bluff's capital assets can be found in Note 3 on pages 32 and 33 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 \$6,290,522. 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 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 administrated 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 administrated by Rural Development, an agency of the U.S. Department of Agriculture.

MANAGEMENT’S DISCUSSION AND ANALYSIS

City of Red Bluff

June 30, 2012

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**

Years Ended June 30	Business-Type Activities	
	2012	2011
Notes payable	\$ 6,290,522	\$ 6,558,872
Total	\$ 6,290,522	\$ 6,558,872

ECONOMIC FACTORS INFLUENCING NEXT YEAR'S BUDGETS

City Management recommended and the City Council considered several important factors in adopting the 2012-13 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.

BASIC FINANCIAL STATEMENTS SECTION

STATEMENT OF NET ASSETS

City of Red Bluff

June 30, 2012	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,090,012	\$ 10,421,184	\$ 17,511,196
Receivables:			
Taxes	119,374	-	119,374
Accounts - net	24,241	1,105,632	1,129,873
Interest	757,282	-	757,282
Due from other governments	673,717	104,007	777,724
Prepaid expenses and deferred charges	-	14,014	14,014
Inventory	732	-	732
Internal balances	(181,208)	181,208	-
Loans receivable	4,227,880	-	4,227,880
Nondepreciable capital assets	332,167	910,368	1,242,535
Depreciable capital assets - net	31,948,314	15,392,739	47,341,053
Total Assets	\$ 44,992,511	\$ 28,129,152	\$ 73,121,663
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 152,612	\$ 182,533	\$ 335,145
Accrued interest payable	-	82,089	82,089
Accrued payroll and benefits	234,283	26,939	261,222
Customer/employee deposits	1,200	103,228	104,428
Other liabilities	27,750	1,540	29,290
Long-term liabilities:			
Due within one year	304,971	320,589	625,560
Due in more than one year	1,309,860	6,153,263	7,463,123
Total Liabilities	2,030,676	6,870,181	8,900,857
NET ASSETS			
Investment in capital assets - net of related debt	32,280,481	10,012,583	42,293,064
Restricted for:			
Grant programs	3,812,337	-	3,812,337
Impact fee development	4,295,034	-	4,295,034
Transportation	1,228,846	-	1,228,846
Other	1,801,244	-	1,801,244
Unrestricted	(456,107)	11,246,388	10,790,281
Total Net Assets	42,961,835	21,258,971	64,220,806
Total Liabilities and Net Assets	\$ 44,992,511	\$ 28,129,152	\$ 73,121,663

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

STATEMENT OF ACTIVITIES

City of Red Bluff

Page 2 of 2

Year Ended June 30, 2012	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT					
Governmental activities:					
General government:					
City administration	\$ 367,942	\$ -	\$ -	\$ -	\$ (367,942)
Finance	376,869	-	-	-	(376,869)
Community promotion and economic development	88,570	-	-	-	(88,570)
Human resources	171,011	-	-	-	(171,011)
Engineering and administration	234,566	-	-	-	(234,566)
Government buildings	133,317	-	-	-	(133,317)
General government	181,628	321,851	-	20,000	160,223
Public safety:					
Fire	1,745,768	5,397	316	2,777	(1,737,278)
Police	3,895,358	83,719	357,266	163,840	(3,290,533)
Parks and recreation	436,223	73,434	49,653	-	(313,136)
Transportation and streets	2,031,628	-	133,832	-	(1,897,796)
Senior nutrition program	299,842	-	297,763	-	(2,079)
Grants and program income	55,359	3,370	10,000	18,380	(23,609)
Total Governmental Activities	10,018,081	487,771	848,830	204,997	(8,476,483)
Business-type activities:					
Building	270,277	207,520	-	-	(62,757)
Planning	113,413	43,350	-	-	(70,063)
Waste water	1,684,254	2,216,395	-	-	532,141
Water	1,343,581	2,087,017	-	-	743,436
Airport	224,963	122,929	-	78,033	(24,001)
Community center	252,374	75,750	85,940	-	(90,684)
Total Business-Type Activities	3,888,862	4,752,961	85,940	78,033	1,028,072
Total Primary Government	\$ 13,906,943	\$ 5,240,732	\$ 934,770	\$ 283,030	\$ (7,448,411)

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

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012	Governmental Activities	Business-Type Activities	Total
CHANGE IN NET ASSETS			
(Expense) Revenue - net	\$ (8,476,483)	\$ 1,028,072	\$ (7,448,411)
GENERAL REVENUES AND TRANSFERS			
General revenues:			
Taxes:			
Sales taxes	2,627,222	-	2,627,222
Property taxes	1,324,799	57,190	1,381,989
Motel taxes	594,254	-	594,254
Special gas taxes	404,286	-	404,286
Franchise taxes	291,559	-	291,559
Other taxes	263,808	-	263,808
Motor vehicle license fees	1,030,288	-	1,030,288
Impact fees	154	-	154
Investment earnings	140,233	48,687	188,920
Transfers	453,169	(453,169)	-
Total General Revenues and Transfers	7,129,772	(347,292)	6,782,480
Change in Net Assets	(1,346,711)	680,780	(665,931)
Net Assets - Beginning of Year	44,308,546	20,578,191	64,886,737
Net Assets - End of Year	\$ 42,961,835	\$ 21,258,971	\$ 64,220,806

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

BALANCE SHEET – GOVERNMENTAL FUNDS

City of Red Bluff

June 30, 2012	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 188,340	\$ 1,233,988	\$ 203,897	\$ 5,463,787	\$ 7,090,012
Receivables:					
Taxes	114,420	4,954	-	-	119,374
Accounts	16,535	123	107	7,476	24,241
Interest	-	-	693,221	64,061	757,282
Loans	-	-	3,594,954	632,926	4,227,880
Due from other governments	502,233	-	18,380	153,104	673,717
Inventory	-	-	-	732	732
Total Assets	\$ 821,528	\$ 1,239,065	\$ 4,510,559	\$ 6,322,086	\$ 12,893,238
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 95,593	\$ 11,906	\$ 5,001	\$ 40,113	\$ 152,613
Accrued payroll and benefits	224,082	7,585	-	2,616	234,283
Customer/employee deposits	1,200	-	-	-	1,200
Other liabilities	27,748	2	693,221	64,061	785,032
Due to other funds	-	-	-	181,208	181,208
Total Liabilities	348,623	19,493	698,222	287,998	1,354,336
FUND BALANCES					
Nonspendable	-	-	3,594,954	633,658	4,228,612
Restricted	-	989,499	216,142	4,544,755	5,750,396
Committed	-	225,585	-	905,825	1,131,410
Assigned	400,000	4,488	1,241	21,314	427,043
Unrestricted	72,905	-	-	(71,464)	1,441
Total Fund Balances	472,905	1,219,572	3,812,337	6,034,088	11,538,902
Total Liabilities and Fund Balances	\$ 821,528	\$ 1,239,065	\$ 4,510,559	\$ 6,322,086	\$ 12,893,238

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

**RECONCILIATION OF FUND
BALANCES TO NET ASSETS**

City of Red Bluff

June 30, 2012

Total Fund Balances Included in the Balance Sheet - Governmental Funds		\$ 11,538,902
Assets recorded within the Statement of Net Assets not reported in the funds:		
Nondepreciable capital assets		332,167
Depreciable capital assets	\$ 61,532,613	
Accumulated depreciation	<u>(29,584,299)</u>	31,948,314
Liabilities recorded within the funds not reported in the Statement of Net Assets:		
Deferred interest		757,282
Liabilities recorded within the Statement of Net Assets not reported in the funds:		
Compensated absences		(1,219,884)
Other postemployment benefits obligation		<u>(394,946)</u>
Net Assets Reported Within the Statement of Net Assets - Governmental Activities		\$ 42,961,835

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

**STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS**

City of Red Bluff

Year Ended June 30, 2012	General Fund	Transportation Fund	Grants Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ 2,627,222	\$ -	\$ -	\$ -	\$ 2,627,222
Property taxes	1,324,799	-	-	-	1,324,799
Motel taxes	594,254	-	-	-	594,254
Franchise taxes	291,559	-	-	-	291,559
Other taxes	35,245	139,750	-	73,784	248,779
Licenses and permits	296,088	-	-	-	296,088
Fines, forfeitures, and penalties	14,875	-	-	40,479	55,354
Use of money and property	1,654	2,306	759	21,418	26,137
Intergovernmental revenue	1,426,480	-	28,380	835,860	2,290,720
Charges for current services	89,616	-	-	-	89,616
Other revenues	221,003	-	-	38,574	259,577
Total Revenues	6,922,795	142,056	29,139	1,010,115	8,104,105
EXPENDITURES					
Current:					
General government	1,456,587	-	-	-	1,456,587
Fire public safety	1,587,931	-	-	-	1,587,931
Police public safety	3,708,039	-	-	-	3,708,039
Parks and recreation	340,794	-	-	14,040	354,834
Transportation and streets	-	649,918	-	3,393	653,311
Senior nutrition program	-	-	-	294,267	294,267
Grants and program income	-	-	17,768	19,211	36,979
Capital outlay	28,649	75,265	18,380	149,265	271,559
Debt service:					
Principal	-	-	-	39,107	39,107
Interest	-	-	-	1,862	1,862
Total Expenditures	7,122,000	725,183	36,148	521,145	8,404,476
Excess (Deficiency) of Revenues Over (Under) Expenditures	(199,205)	(583,127)	(7,009)	488,970	(300,371)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	566,316	903,863	-	6,899	1,477,078
Operating transfers out	(321,642)	(6,899)	-	(695,368)	(1,023,909)
Total Other Financing Sources (Uses)	244,674	896,964	-	(688,469)	453,169
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	45,469	313,837	(7,009)	(199,499)	152,798
Fund Balance - Beginning of Year	427,436	905,735	3,819,346	6,233,587	11,386,104
Fund Balances - End of Year	\$ 472,905	\$ 1,219,572	\$ 3,812,337	\$ 6,034,088	\$ 11,538,902

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

**RECONCILIATION OF CHANGE IN FUND
BALANCES TO CHANGE IN NET ASSETS**

City of Red Bluff

June 30, 2012

Total Net Change in Fund Balance Included in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 152,798
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.	(1,556,014)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	114,096
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.	39,107
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.	(96,698)
Net Change in Net Assets Reported Within the Statement of Activities - Governmental Activities	\$ (1,346,711)

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS**

City of Red Bluff

Year Ended June 30, 2012	General Fund				Transportation Fund				Grants Fund			
	Budgeted Amounts		Actual	Variance	Budgeted Amounts		Actual	Variance	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)	Original	Final		Favorable (Unfavorable)	Original	Final		Favorable (Unfavorable)
REVENUES												
Sales taxes	\$ 2,470,640	\$ 2,470,640	\$ 2,627,222	\$ 156,582	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes	1,276,615	1,276,615	1,324,799	48,184	-	-	-	-	-	-	-	-
Motel taxes	607,000	607,000	594,254	(12,746)	-	-	-	-	-	-	-	-
Franchise taxes	297,500	297,500	291,559	(5,941)	-	-	-	-	-	-	-	-
Other taxes	33,400	33,400	35,245	1,845	90,500	90,500	139,750	49,250	-	-	-	-
Licenses and permits	339,000	339,000	296,088	(42,912)	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	16,135	16,135	14,875	(1,260)	-	-	-	-	-	-	-	-
Use of money and property	6,800	6,800	1,654	(5,146)	-	-	2,306	2,306	-	-	759	759
Intergovernmental revenue	1,247,430	1,378,174	1,426,480	48,306	216,090	216,090	-	(216,090)	-	-	28,380	28,380
Charges for current services	59,210	59,210	89,616	30,406	-	-	-	-	-	-	-	-
Other revenues	179,355	227,990	221,003	(6,987)	-	-	-	-	-	-	-	-
Total Revenues	6,533,085	6,712,464	6,922,795	210,331	306,590	306,590	142,056	(164,534)	-	-	29,139	29,139
EXPENDITURES												
Current:												
General government	1,422,963	1,496,356	1,456,587	39,769	-	-	-	-	-	-	-	-
Fire public safety	1,596,927	1,609,035	1,587,931	21,104	-	-	-	-	-	-	-	-
Police public safety	3,478,114	3,775,237	3,708,039	67,198	-	-	-	-	-	-	-	-
Parks and recreation	297,310	300,343	340,794	(40,451)	-	-	-	-	-	-	-	-
Transportation and streets	-	-	-	-	673,604	683,197	649,918	33,279	-	-	-	-
Grants and program income	-	-	-	-	-	-	-	-	-	-	17,768	(17,768)
Capital outlay	-	-	28,649	(28,649)	511,100	511,100	75,265	435,835	-	-	18,380	(18,380)
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	6,795,314	7,180,971	7,122,000	58,971	1,184,704	1,194,297	725,183	469,114	-	-	36,148	(36,148)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(262,229)	(468,507)	(199,205)	269,302	(878,114)	(887,707)	(583,127)	304,580	-	-	(7,009)	(7,009)
OTHER FINANCING SOURCES (USES)												
Operating transfers in	550,408	550,408	566,316	15,908	583,250	583,250	903,863	320,613	-	-	-	-
Operating transfers out	(301,056)	(323,738)	(321,642)	2,096	-	-	(6,899)	(6,899)	-	-	-	-
Total Other Financing Sources (Uses)	249,352	226,670	244,674	18,004	583,250	583,250	896,964	313,714	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(12,877)	(241,837)	45,469	287,306	(294,864)	(304,457)	313,837	618,294	-	-	(7,009)	(7,009)
Fund Balance - Beginning of Year	427,436	427,436	427,436	-	905,735	905,735	905,735	-	3,819,346	3,819,346	3,819,346	-
Fund Balances - End of Year	\$ 414,559	\$ 185,599	\$ 472,905	\$ 287,306	\$ 610,871	\$ 601,278	\$ 1,219,572	\$ 618,294	\$ 3,819,346	\$ 3,819,346	\$ 3,812,337	\$ (7,009)

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

**STATEMENT OF NET ASSETS –
PROPRIETARY FUNDS**

City of Red Bluff

June 30, 2012	Waste Water Fund	Water Fund	Other Enterprise Funds	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 4,461,265	\$ 5,578,652	\$ 381,267	\$ 10,421,184
Receivables:				
Accounts - net	562,765	520,465	22,402	1,105,632
Due from other governments	-	-	104,007	104,007
Due from other funds	-	249,051	-	249,051
Total Current Assets	5,024,030	6,348,168	507,676	11,879,874
NONCURRENT ASSETS				
Prepaid expenses and deferred charges	13,566	-	448	14,014
Nondepreciable capital assets	377,325	146,117	386,926	910,368
Depreciable capital assets - net	5,091,395	8,404,763	1,896,581	15,392,739
Total Noncurrent Assets	5,482,286	8,550,880	2,283,955	16,317,121
Total Assets	\$ 10,506,316	\$ 14,899,048	\$ 2,791,631	\$ 28,196,995
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 110,992	\$ 62,711	\$ 8,830	\$ 182,533
Accrued interest payable	26,238	55,851	-	82,089
Accrued payroll and benefits	4,964	5,803	16,172	26,939
Customer/employee deposits	-	92,755	10,473	103,228
Other liabilities	30	62	1,448	1,540
Compensated absences payable - current	16,476	8,645	20,711	45,832
Bonds and loan payable - current	166,885	107,872	-	274,757
Due to other funds	-	-	67,843	67,843
Total Current Liabilities	325,585	333,699	125,477	784,761
NONCURRENT LIABILITIES				
Compensated absences - net	49,428	25,934	62,134	137,496
Bonds and loans payable - net	2,803,313	3,212,454	-	6,015,767
Total Noncurrent Liabilities	2,852,741	3,238,388	62,134	6,153,263
Total Liabilities	3,178,326	3,572,087	187,611	6,938,024
NET ASSETS				
Investment in capital assets - net of related debt	2,498,522	5,230,554	2,283,507	10,012,583
Unrestricted	4,829,468	6,096,407	320,513	11,246,388
Total Net Assets	7,327,990	11,326,961	2,604,020	21,258,971
Total Liabilities and Net Assets	\$ 10,506,316	\$ 14,899,048	\$ 2,791,631	\$ 28,196,995

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

**STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND
NET ASSETS – PROPRIETARY FUNDS**

City of Red Bluff

Year Ended June 30, 2012	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
OPERATING REVENUES				
Charges for current services:				
Waste water and water charges	\$ 2,216,395	\$ 2,087,017	\$ -	\$ 4,303,412
Permits and fees	-	-	222,996	222,996
Rental revenue	-	-	172,401	172,401
Other revenue	-	-	54,152	54,152
Total Operating Revenues	2,216,395	2,087,017	449,549	4,752,961
OPERATING EXPENSES				
Cost of power and transportation	193,371	312,199	49,810	555,380
Maintenance, operations, and administration	1,060,435	604,520	688,785	2,353,740
Depreciation expense	346,426	310,950	122,374	779,750
Total Operating Expenses	1,600,232	1,227,669	860,969	3,688,870
Operating Income (Loss)	616,163	859,348	(411,420)	1,064,091
NONOPERATING REVENUES (EXPENSES)				
Property taxes	-	-	57,190	57,190
Intergovernmental revenues	-	-	163,973	163,973
Investment income	15,946	31,225	1,516	48,687
Interest expense	(84,022)	(115,912)	(58)	(199,992)
Total Nonoperating Revenues (Expenses)	(68,076)	(84,687)	222,621	69,858
Income Before Operating Transfers	548,087	774,661	(188,799)	1,133,949
Operating transfers in	-	16,516	160,687	177,203
Operating transfers out	(205,992)	(304,012)	(120,368)	(630,372)
Change in Net Assets	342,095	487,165	(148,480)	680,780
Total Net Assets - Beginning of Year	6,985,895	10,839,796	2,752,500	20,578,191
Total Net Assets - End of Year	\$ 7,327,990	\$ 11,326,961	\$ 2,604,020	\$ 21,258,971

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

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS**

City of Red Bluff
Page 1 of 2

Year Ended June 30, 2012	Waste Water Fund	Water Fund	Other Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,095,052	\$ 1,993,625	\$ 426,590	\$ 4,515,267
Cash paid to employees (including employee benefits)	(291,496)	(315,897)	(489,897)	(1,097,290)
Cash paid to suppliers	(861,040)	(568,491)	(254,809)	(1,684,340)
Net Cash Provided (Used) by Operating Activities	<u>942,516</u>	<u>1,109,237</u>	<u>(318,116)</u>	<u>1,733,637</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property taxes received	-	-	57,190	57,190
Cash received from (paid to) other funds	2,003	(246,979)	181,220	(63,756)
Operating transfers in	-	16,516	160,687	177,203
Operating transfers out	(205,992)	(304,012)	(120,368)	(630,372)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(203,989)</u>	<u>(534,475)</u>	<u>278,729</u>	<u>(459,735)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental revenue received	-	-	203,041	203,041
Payments for the purchase of capital assets	(20,586)	-	-	(20,586)
Debt principal paid	(163,690)	(104,658)	-	(268,348)
Debt interest paid	(86,073)	(117,673)	(60)	(203,806)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(270,349)</u>	<u>(222,331)</u>	<u>202,981</u>	<u>(289,699)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	15,946	31,225	1,516	48,687
Net Cash Provided by Investing Activities	<u>15,946</u>	<u>31,225</u>	<u>1,516</u>	<u>48,687</u>
Net Increase (Decrease) in Cash and Cash Equivalents	484,124	383,656	165,110	1,032,890
Cash and Cash Equivalents - Beginning of Year	<u>3,977,141</u>	<u>5,194,996</u>	<u>216,157</u>	<u>9,388,294</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,461,265</u>	<u>\$ 5,578,652</u>	<u>\$ 381,267</u>	<u>\$ 10,421,184</u>

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

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS**

<u>Year Ended June 30, 2012</u>	<u>Waste Water Fund</u>	<u>Water Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 616,163	\$ 859,348	\$ (411,420)	\$ 1,064,091
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	346,426	310,950	122,374	779,750
Changes in:				
Accounts receivable	(121,343)	(102,871)	(20,785)	(244,999)
Prepaid expenses and deferred charges	1,938	-	(448)	1,490
Accounts payable	94,428	28,630	(5,878)	117,180
Accrued payroll and benefits	1,067	1,540	9,223	11,830
Customer/employee deposits		9,479	(2,174)	7,305
Other liabilities	30	62	363	455
Compensated absences payable	3,807	2,099	(9,371)	(3,465)
Net Cash Provided (Used) by Operating Activities	<u>\$ 942,516</u>	<u>\$ 1,109,237</u>	<u>\$ (318,116)</u>	<u>\$ 1,733,637</u>

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

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Red Bluff, California (the 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 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 is a participant with Tehama County (the County) in two joint ventures.

The Red Bluff Community Center (the 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 20-year lease to the City and reverts to the City upon the expiration of the lease. As of November 1, 1995, the City records 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.

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

Basis of Presentation The financial statement presentation required by GASB Statements Nos. 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.

**NOTES TO THE FINANCIAL
STATEMENTS**

City of Red Bluff

June 30, 2012

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. 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.

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.

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The City reports the following major governmental funds:

The General Fund: 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.

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.

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.

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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 Grants Fund by \$36,148. These over-expenditures were funded with unbudgeted revenue which was received and was available.

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, 2012, 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 Local Agency Investment Fund, 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.

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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 Local Agency Investment Fund 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, 2012, for the water and waste water departments were \$18,087 and \$21,209, respectively.

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.

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 nonspendable fund balance, and noncurrent portions of interest receivable are offset by a corresponding deferred revenue (other liability) amount.

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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.

Compensated Absences Vested or accumulated vacation leave, sick leave, and compensatory time are accrued in the proprietary funds and in the government-wide financial 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.

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

Net Assets/Fund Balance/Equity Net assets represent the difference between assets and liabilities. The City's net assets are classified as follows:

Invested in Capital Assets - Net of Related Debt: This represents the City's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

Restricted Net Assets - Expendable: Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets: Unrestricted net assets represent resources derived from taxes; licenses and permits; fines; forfeitures and penalties; and charges for services. These resources are used for transactions relating to the general operations of the City, and may be used at the discretion of the City Council to meet current expenses for any purpose.

The government-wide statement of net assets reports \$11,137,461 of restricted net assets, of which \$4,295,034 is restricted by enabling legislation.

Fund balance of governmental funds is reported in various categories based upon the nature of the spending constraints of the revenue sources of these funds. 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.

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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.

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.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2012, consisted of the following:

Cash in banks	\$ 293,321
Certificates of deposit	5,687,000
State of California - Local Agency Investment Fund (LAIF)	11,530,875
Total Cash and Cash Equivalents	\$ 17,511,196

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, 2012, 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 the Local Agency Investment Fund (LAIF) for its investment in those funds and the Finance Director and City Treasurer for the City’s investment in certificates of deposit.

NOTES TO THE FINANCIAL STATEMENTS

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City of Red Bluff

Equity in Pooled Cash and Investment

The City invests funds in the State Treasurer’s Pooled Money Investment Account (PMIA) through 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, 2012, 3.47% of LAIF’s investment portfolio was invested in structured notes and other asset-backed securities. In addition, PMIA’s weighted average maturities were 0.96 years at June 30, 2012. (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.)

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, is summarized as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 305,206	\$ -	\$ -	\$ -	\$ 305,206
Construction in progress	8,581	18,380	-	-	26,961
Total Nondepreciable Capital Assets	313,787	18,380	-	-	332,167
DEPRECIABLE CAPITAL ASSETS					
Buildings	1,986,188	-	-	-	1,986,188
Improvements	2,708,232	7,380	-	-	2,715,612
Equipment	1,494,980	-	-	-	1,494,980
Vehicles	2,800,917	-	-	-	2,800,917
Infrastructure	52,411,793	123,123	-	-	52,534,916
Total Depreciable Capital Assets	61,402,110	130,503	-	-	61,532,613
LESS: ACCUMULATED DEPRECIATION					
Buildings	1,728,704	17,823	-	-	1,746,527
Improvements	1,100,946	113,372	-	-	1,214,318
Equipment	1,221,355	101,930	-	-	1,323,285
Vehicles	2,167,437	168,531	-	-	2,335,968
Infrastructure	21,660,965	1,303,236	-	-	22,964,201
Total Less: Accumulated Depreciation	27,879,407	1,704,892	-	-	29,584,299
Depreciable Capital Assets - Net	33,522,703	(1,574,389)	-	-	31,948,314
Governmental Capital Assets - Net	\$ 33,836,490	\$ (1,556,009)	\$ -	\$ -	\$ 32,280,481

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Depreciation expense was charged to functions as follows:

GOVERNMENTAL ACTIVITIES	
General government	\$ 85,322
Fire	124,112
Police	85,259
Parks and recreation	86,586
Transportation and streets	1,323,613
Total Governmental Activities Depreciation Expense	\$ 1,704,892

Business-Type Activities:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 910,368	\$ -	\$ -	\$ -	\$ 910,368
Construction in progress	-	-	-	-	-
Total Nondepreciable Capital Assets	910,368	-	-	-	910,368
DEPRECIABLE CAPITAL ASSETS					
Buildings	1,467,760	-	-	-	1,467,760
Improvements	16,901,409	20,586	-	-	16,921,995
Equipment	884,735	-	-	-	884,735
Vehicles	660,705	-	-	-	660,705
Infrastructure	12,557,713	-	-	-	12,557,713
Total Depreciable Capital Assets	32,472,322	20,586	-	-	32,492,908
LESS: ACCUMULATED DEPRECIATION					
Buildings	1,246,569	13,167	-	-	1,259,736
Improvements	7,333,577	445,363	-	-	7,778,940
Equipment	701,493	58,084	-	-	759,577
Vehicles	580,509	17,674	-	-	598,183
Infrastructure	6,458,271	245,462	-	-	6,703,733
Total Less: Accumulated Depreciation	16,320,419	779,750	-	-	17,100,169
Depreciable Capital Assets - Net	16,151,903	(759,164)	-	-	15,392,739
Business-Type Capital Assets - Net	\$ 17,062,271	\$ (759,164)	\$ -	\$ -	\$ 16,303,107

Depreciation expense was charged to functions as follows:

BUSINESS-TYPE ACTIVITIES	
Waste water	\$ 346,426
Water	310,950
Airport	121,229
Community center	1,145
Total Business-Type Activities Depreciation Expense	\$ 779,750

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4. LONG-TERM LIABILITIES

Activity

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2012:

	<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	\$ 39,107	\$ -	\$ 39,107	\$ -	\$ -
Other liabilities:					
Compensated absences	1,239,276	606,789	626,181	1,219,884	304,971
Other postemployment benefits	278,852	116,095	-	394,947	-
Total Other Liabilities	1,518,128	722,884	626,181	1,614,831	304,971
Total Governmental Activities	1,557,235	722,884	665,288	1,614,831	304,971
BUSINESS-TYPE ACTIVITIES					
Revenue bonds and loans payable:					
State Revolving Loan Fund	1,177,620	-	121,691	1,055,929	123,885
USDA Loan	1,956,271	-	42,000	1,914,271	43,000
CIEDB Loan	3,424,981	-	104,659	3,320,322	107,872
Total Revenue Bonds and Loans Payable	6,558,872	-	268,350	6,290,522	274,757
Other liabilities:					
Compensated absences	186,793	94,505	97,968	183,330	45,832
Total Business-Type Activities	6,745,665	94,505	366,318	6,473,852	320,589
Total Long-Term Liabilities	\$ 8,302,900	\$ 817,389	\$ 1,031,606	\$ 8,088,683	\$ 625,560

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 \$152,142, as of June 30, 2012. The lease was payable in annual installments of \$40,777, including interest at 4.2%, and was paid off during the year. Amortization of leased assets is included with depreciation expense.

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.

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Principal and interest paid in the current year was \$142,923, while total pledged system revenues were \$2,216,395. Total principal and interest remaining on the bonds is \$1,143,384, 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 \$208,198, while total pledged system revenues were \$890,573. Total principal and interest remaining on the bonds is \$4,564,754, which is the amount of the remaining system revenues pledged.

Long-Term Debt Summary

Year Ending June 30	Principal	Interest	Total
2013	\$ 274,757	\$ 180,839	\$ 455,596
2014	281,301	173,830	455,131
2015	288,989	166,628	455,617
2016	295,822	159,230	455,052
2017	303,805	151,631	455,436
2018-2022	1,349,874	639,308	1,989,182
2023-2027	1,090,999	466,358	1,557,357
2028-2032	1,272,657	282,230	1,554,887
2033-2037	836,048	96,910	932,958
2038-2040	296,270	14,635	310,905
Total	\$ 6,290,522	\$ 2,331,599	\$ 8,622,121

Interest Expense

The total interest incurred for the year ended June 30, 2012, was \$201,887. 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, 2012, was \$126,512, interest on the net OPEB obligation was \$13,943, and contributions made by the City during the year were \$24,360, which resulted in a net increase in the OPEB obligation of \$116,095 and an ending OPEB obligation of \$394,947. See note 8 for additional information regarding the OPEB obligation and the postemployment benefit plan.

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 for workers' compensation and \$5,000,000 for employers' liability. The liability program comprises a banking or deductible layer for claims up to \$50,000 and a shared risk pool for claims from \$50,000 to \$1,000,000. Excess coverage is provided for liability 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.

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The City 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, 2012, 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, 2012, including incurred but not reported claims (IBNRs). Claims paid for the workers’ compensation and general liability programs for the fiscal year ended June 30, 2012, were \$237,180 and \$61,772, respectively.

It is the City’s policy not to record the fluctuations in its banking layer. As of June 30, 2012, the City had not recorded a liability or an asset in its funds for anticipated workers’ compensation claims, while the JPA reported that the City has a surplus in its workers’ compensation program in the amount of \$194,600. In addition, the City had not recorded a liability or an asset for general liability claims in its funds while the JPA reported that the City had a surplus of \$24,638 for its general liability program.

6. INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Interfund Balances

The following is a summary of interfund balances as of June 30, 2012:

	Due From Other Funds	Due to Other Funds	Internal Balances
GOVERNMENTAL ACTIVITIES			
Other governmental	\$ -	\$ 181,208	\$ (181,208)
Total Governmental Activities	-	181,208	(181,208)
BUSINESS-TYPE ACTIVITIES			
Water	249,051	-	249,051
Other enterprise	-	67,843	(67,843)
Total Business-Type Activities	249,051	67,843	181,208
Total Government-Wide Statement	\$ 249,051	\$ 249,051	\$ -

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

City of Red Bluff

Transfers

The following is a summary of transfers for the year ended June 30, 2012:

	Operating Transfers In	Operating Transfers Out	Net Transfers
GOVERNMENTAL ACTIVITIES			
General	\$ 566,316	\$ 321,642	\$ 244,674
Transportation	903,863	6,899	896,964
Other governmental	6,899	695,368	(688,469)
Total Governmental Activities	1,477,078	1,023,909	453,169
BUSINESS-TYPE ACTIVITIES			
Waste water	-	205,992	(205,992)
Water	16,516	304,012	(287,496)
Other enterprise	160,687	120,368	40,319
Total Business-Type Activities	177,203	630,372	(453,169)
Total Government-Wide Statement	\$ 1,654,281	\$ 1,654,281	\$ -

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.

7. RETIREMENT PLAN

The California Public Employees Retirement System (CalPERS) funding progress information for the City has been consolidated by CalPERS 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.

Plan Descriptions

The City contributes to CalPERS, a cost-sharing, multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 CalPERS’ annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7.000% (9.000% 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 7.092% for miscellaneous employees, 27.01% for safety fire plan employees, 41.027% for safety police plan tier one employees, and 21.252% for safety police plan tier two employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year ended June 30, 2012, the City's annual pension cost of \$891,235 was equal to the City's actual and required contributions. The required contribution was determined as part of the June 30, 2009, 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 3.55% to 14.45%. Both (a) and (b) include an inflation component of 3.00% and a payroll growth component of 3.25%. The actuarial value of CalPERS' 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, 2012, the amortization periods were 15 years for the miscellaneous and the safety police plans and 13 years for the safety fire plan.

Three-Year Trend Information for CalPERS

Miscellaneous Plan

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 153,188	100%	\$ -
2011	\$ 135,964	100%	\$ -
2012	\$ 162,763	100%	\$ -

Safety Fire Plan

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 145,567	100%	\$ -
2011	\$ 127,130	100%	\$ -
2012	\$ 195,821	100%	\$ -

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

City of Red Bluff

Safety Police Plan - Tier One

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 502,225	100%	\$ -
2011	\$ 430,641	100%	\$ -
2012	\$ 521,821	100%	\$ -

Safety Police Plan - Tier Two

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ -	-	\$ -
2011	\$ -	-	\$ -
2012	\$ 20,742	100%	\$ -

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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, 2012, membership of the Plan consists of 13 retirees currently receiving benefits and 75 eligible active plan members.

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, 2012, the City paid \$24,360 on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the 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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012

City of Red Bluff

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
Interest on obligation from prior year	13,943
Annual OPEB Cost for the Year	140,455
Contributions made for the year	(24,360)
Increase in Net OPEB Obligation	116,095
Net OPEB Obligation - Beginning of the Year	278,852
Net OPEB Obligation - End of Year	\$ 394,947

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years is as follows:

June 30	2012	2011	2010
Annual OPEB cost	\$ 140,455	\$ 123,439	\$ 98,049
Percentage of annual OPEB costs contributed	17.34%	10.21%	6.84%
Net OPEB obligation - end of year	\$ 394,947	\$ 278,852	\$ 168,013

Funded Status Information

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

	November 17, 2011
Actuarial accrued liability (AAL)	\$ 957,452
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 957,452
Actuarial value of plan assets as a percentage of AAL	0%
Covered payroll	\$ 4,968,402
UAAL as Percentage of Covered Payroll	19.27%

As of June 30, 2012, the City has not set aside any amounts in an external trust fund.

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 include 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, 3.0% price inflation, 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.

9. FUND BALANCE/RETAINED EARNINGS

At June 30, 2012, the funds listed below reported deficit fund balances or retained earnings:

GOVERNMENTAL FUNDS	
Fire Protection Impact Fee	\$ 71,464

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

City of Red Bluff

As of June 30, 2012, fund balances are composed of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>
General Fund:				
Contingency	\$ -	\$ -	\$ -	\$ 400,000
Transportation Fund:				
Transportation	-	989,499	225,585	4,488
Grants Fund:				
Long-term receivables	3,594,954	-	-	-
Grants	-	216,142	-	1,241
Other Governmental Funds:				
Long-term receivables	632,926	-	-	-
Inventories	732	-	-	-
Traffic Control Impact Fees	-	1,815,960	-	12,981
Waste Water Facility Impact Fees	-	783,923	-	-
Water Capital Impact Fees	-	607,685	-	-
Waste Water Collection Impact Fees	-	490,660	-	-
Flood Protection Impact Fees	-	210,184	-	1,503
City Admin and Equipment Impact Fees	-	155,972	-	570
Program Income	-	132,637	-	128
PEGS Fees	-	101,446	-	623
Park Capital Improvement Fees	-	74,823	-	273
Police Protection Impact Fees	-	61,118	-	224
Meadow Brook Street Fees	-	40,260	-	196
Airport Impact Fees	-	38,427	-	275
Broadcast Labor Fees	-	20,000	-	34
Prop 1A (Roads) Revenue	-	8,108	-	1,165
Senior Nutrition Program Revenue	-	3,551	-	19
Local Transportation Revenue	-	1	-	-
Waste Water Treatment Plant Capital Reserves	-	-	813,210	2,982
General Plan Update	-	-	92,615	341
Total	<u>\$ 4,228,612</u>	<u>\$ 5,750,396</u>	<u>\$ 1,131,410</u>	<u>\$ 427,043</u>

10. LANDFILL JOINT POWERS AGENCIES

The City is a member of the Tehama County Sanitary Landfill Agency (the 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, along with the County of Tehama, formed the Tehama County/Red Bluff Landfill Management Agency (the Management Agency). The Management Agency was formed to govern the operation and management of the landfill. The City 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.

June 30, 2012

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.

12. CONSTRUCTION COMMITMENTS

At June 30, 2012, the City had commitments outstanding, in the form of contracts and purchase orders, of approximately \$173,879 for construction.

13. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to establish a framework of detailing: 1) where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed; and 2) how these elements should be reported. This will result in the standardizing of the presentation of deferred balances and their effects on a government's net position. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. The City has not yet determined the effect this statement will have on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations;
2. Accounting Principles Board Opinions; and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The provisions of GASB Statement No. 62 are effective for financial statements for the period beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The City has not yet determined the effect this statement will have on its financial statements.

GAO SECTION



MATSON
& ISOM

**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**

To the Honorable Mayor and City Council
City of Red Bluff, California

We have audited the basic financial statements of the City of Red Bluff (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 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 the 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 weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

**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***

Continued

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

Matson and Isom

December 14, 2012
Redding, California

**SCHEDULE OF FINDINGS AND
RESPONSES**

June 30, 2012

City of Red Bluff

**SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT**

None.

**SUMMARY SCHEDULE OF PRIOR AUDIT
FINDINGS**

June 30, 2012

City of Red Bluff

None.