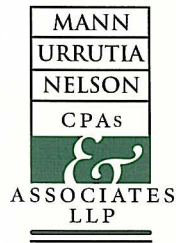


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December 15, 2008

United States Department of Commerce
Economics and Statistics Administration
U.S. Census Bureau
National Processing Center
Jeffersonville, IN 47132-0001

Re: 2006 Fiscal Year City of Rio Dell Single Audit Report

To Whom It May Concern:

The 2006 Financial Report for the City of Rio Dell has been updated to reflect the change as specified. A copy of the report is enclosed.

An updated copy has been sent to Stephanie Beauchaine, Finance Director for the City of Rio Dell.

Should you have any other questions or concerns, please contact me at (916) 929-0540.

Sincerely,

Justin J. Williams, CPA
Partner

PRINCIPALS

Chris A. Mann, CPA, CFP • John R. Urrutia, CPA • Michelle O. Nelson, CPA, CFE, CVA • Christine L. Collins, EA

Kriss Ann Mann, CPA CCPS • Justin J. Williams, CPA

**CITY OF RIO DELL
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2006
WITH
INDEPENDENT AUDITOR'S REPORT**

**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
2515 VENTURE OAKS WAY, SUITE 135
SACRAMENTO, CA 95833**

CITY OF RIO DELL
ANNUAL FINANCIAL REPORT
JUNE 30, 2006

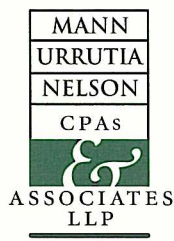
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INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
 City of Rio Dell
 Rio Dell, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rio Dell as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Rio Dell's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraph, 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 *Governmental 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 misstatements. 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 opinion.

Because of the inadequacy of the fixed asset accounting records, we were unable to form an opinion regarding the amounts at which governmental activities and business-type activities capital assets, net of accumulated depreciation, are recorded in the accompanying financial statements at June 30, 2006 (stated at \$741,454 and \$7,830,346, respectively) or the amount of depreciation expense for the governmental activities and business-type activities for the year ended June 30, 2006 (stated at \$65,347 and \$203,186, respectively). In addition, because of the inadequacy of the accounting records supporting the interfund balances, we were unable to form an opinion regarding the amounts at which the "due from other funds" and "due to other funds" balances for the governmental funds (stated at \$801,974 and 801,974, respectively) and the proprietary funds (stated at \$187,476 and \$187,476, respectively) are recorded in the accompanying financial statements at June 30, 2006. In addition, management was unable to provide us with management's discussion and analysis in accordance with presentation requirements under accounting principles generally accepted in the United States of America. Accordingly, management's discussion and analysis has not been included in the financial statements.

In our opinion, except for the effects of such adjustments as might have been determined to be necessary had records concerning fixed assets, related accumulated depreciation, and interfund balances been adequate, and for the presentation of management's discussion and analysis, 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 Rio Dell as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 5, 2007 on our consideration of the City of Rio Dell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

PRINCIPALS

Chris A. Mann, CPA, CFP • John R. Urrutia, CPA • Michelle O. Nelson, CPA, CFE, CVA • Christine L. Collins, EA

Kriss Ann Mann, CPA CCPS • Justin J. Williams, CPA

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

M. Unt. N. CPAs

Sacramento, CA
March 5, 2007

CITY OF RIO DELL
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and Investments (Note 2)	\$ 2,650,533	\$ 311,705	\$ 2,962,238
Accounts and Grants Receivable	3,317,297	203,575	3,520,872
Prepaid Expenses	60,757	-	60,757
Notes Receivable (Note 5)	1,276,921	-	1,276,921
Assessments Receivable	-	253,950	253,950
Capital Assets, net (Note 3)	<u>741,454</u>	<u>7,830,346</u>	<u>8,571,800</u>
TOTAL ASSETS	<u>\$ 8,046,962</u>	<u>\$ 8,599,576</u>	<u>\$ 16,646,538</u>
LIABILITIES			
Accounts Payable	1,297,771	75,621	1,373,392
Accrued Expenses	18,310	-	18,310
Customer Deposits (Note 2)	-	21,482	21,482
Accrued Compensated Absences (Note 8)	36,337	9,430	45,767
Short-Term Loan (Note 7)	3,346,302	-	3,346,302
Long-Term Liabilities (Note 8)			
Due within one year	-	41,395	41,395
Due in more than one year	<u>2,412,602</u>	<u>422,505</u>	<u>2,835,107</u>
TOTAL LIABILITIES	<u>7,111,322</u>	<u>570,433</u>	<u>7,681,755</u>
NET ASSETS			
Invested in capital assets, net of related debt	(1,671,148)	7,366,446	5,695,298
Restricted for redevelopment activities	1,885,583	-	1,885,583
Unrestricted	<u>721,205</u>	<u>662,697</u>	<u>1,383,902</u>
TOTAL NET ASSETS	<u>935,640</u>	<u>8,029,143</u>	<u>8,964,783</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,046,962</u>	<u>\$ 8,599,576</u>	<u>\$ 16,646,538</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type	
					Governmental Activities	Activities	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 777,311	\$ 369,894	\$ -	\$ -	\$ (407,417)	\$ -	\$ (407,417)
Public safety	151,347	6,446	101,408	-	(43,493)	-	(43,493)
Highways and streets	110,220	8,751	30,198	-	(71,271)	-	(71,271)
Housing and community development	837,334	86,576	895,426	-	144,668	-	144,668
Public Services	12,507	8,075	5,000	3,898,313	3,898,881	-	3,898,881
Total government activities	<u>1,888,719</u>	<u>479,742</u>	<u>1,032,032</u>	<u>3,898,313</u>	<u>3,521,368</u>	<u>-</u>	<u>3,521,368</u>
Business-type activities:							
Sewer	433,007	536,988	-	-	-	103,981	103,981
Water	584,578	650,521	-	-	-	65,943	65,943
Total business-type activities	<u>1,017,585</u>	<u>1,187,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,924</u>	<u>169,924</u>
Total primary government	<u>\$ 2,906,304</u>	<u>\$ 1,667,251</u>	<u>\$ 1,032,032</u>	<u>\$ 3,898,313</u>	<u>\$ 3,521,368</u>	<u>\$ 169,924</u>	<u>\$ 3,691,292</u>
General revenues:							
Taxes:							
Property					\$ 99,043	\$ -	\$ 99,043
Sales					93,893	-	93,893
Occupancy					8,680	-	8,680
Use					59	-	59
Gas					174,661	-	174,661
Interest and use of property					45,733	-	45,733
Miscellaneous					9,686	-	9,686
Transfers					(6,105,180)	6,105,180	-
Total General Revenues and transfers					<u>(5,673,425)</u>	<u>6,105,180</u>	<u>431,755</u>
Change in Net Assets					(2,152,057)	6,275,104	4,123,047
Net assets - beginning					<u>3,087,697</u>	<u>1,754,039</u>	<u>4,841,736</u>
Net assets - ending					<u>\$ 935,640</u>	<u>\$ 8,029,143</u>	<u>\$ 8,964,783</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General Fund</u>	<u>CDBG</u>	<u>DWR- Infrastructure Project</u>	<u>Winter Storm Damage</u>	<u>DHS - Infiltration Gallery</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>							
Cash and Investments	\$ -	\$ 558,048	\$ 834,532	\$ -	\$ 681,975	\$ 575,978	\$ 2,650,533
Accounts Receivable	44,260	22,314	2,113,567	476,095	661,061	-	3,317,297
Prepaid Expenses	60,757	-	-	-	-	-	60,757
Due From Other Funds	755,936	46,038	-	-	-	-	801,974
Notes Receivable	-	1,276,921	-	-	-	-	1,276,921
TOTAL ASSETS	\$ 860,953	\$ 1,903,321	\$ 2,948,099	\$ 476,095	\$ 1,343,036	\$ 575,978	\$ 8,107,482
<u>LIABILITIES AND FUND BALANCES</u>							
LIABILITIES							
Accounts Payable	\$ 203,171	\$ 17,738	\$ 391,715	\$ 171,866	\$ 504,118	\$ 9,163	\$ 1,297,771
Due to Other Funds	-	-	-	367,598	49,000	385,376	801,974
Accrued Expenses	18,310	-	-	-	-	-	18,310
Deferred Revenue	-	1,225,639	-	-	-	-	1,225,639
Notes Payable	-	-	2,556,384	-	789,918	-	3,346,302
TOTAL LIABILITIES	221,481	1,243,377	2,948,099	539,464	1,343,036	394,539	6,689,996
FUND BALANCES							
Fund balances	639,472	659,944	-	(63,369)	-	181,439	1,417,486
TOTAL LIABILITIES AND FUND BALANCES	\$ 860,953	\$ 1,903,321	\$ 2,948,099	\$ 476,095	\$ 1,343,036	\$ 575,978	\$ 8,107,482

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET ASSETS- GOVERNMENTAL FUNDS
JUNE 30, 2006

Fund balance - total governmental funds	1,417,486
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$459,141	741,454
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	1,225,639
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Note Payable	(2,412,602)
Compensated Absences	<u>(36,337)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 935,640</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>CDBG</u>	<u>DWR- Infrastructure Project</u>	<u>Winter Storm Damage</u>	<u>DHS - Infiltration Gallery</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES							
Taxes							
Property	\$ 99,043	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,043
Sales	93,893	-	-	-	-	-	93,893
Occupancy	8,680	-	-	-	-	-	8,680
Use	59	-	-	-	-	-	59
Gas	-	-	-	-	-	174,661	174,661
Intergovernmental	-	393,532	3,898,313	481,630	-	156,870	4,930,345
Licenses, permits, and franchise fees	467,395	91	-	-	-	12,256	479,742
Interest and use of property	43,299	2,434	-	-	-	-	45,733
Miscellaneous	9,200	-	-	-	-	486	9,686
Total Revenues	<u>721,569</u>	<u>396,057</u>	<u>3,898,313</u>	<u>481,630</u>	<u>-</u>	<u>344,273</u>	<u>5,841,842</u>
EXPENDITURES							
Current Operations							
General Government	590,112	-	-	-	-	103,402	693,514
Public Safety	-	-	-	-	-	135,363	135,363
Highways and Streets	-	-	-	-	-	97,161	97,161
Housing and Community Development	-	474,204	-	444,850	-	10,844	929,898
Public Services	-	-	-	-	-	11,700	11,700
Capital Outlay	-	-	-	61,241	-	8,971	70,212
Total Expenditures	<u>590,112</u>	<u>474,204</u>	<u>-</u>	<u>506,091</u>	<u>-</u>	<u>367,441</u>	<u>1,937,848</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>131,457</u>	<u>(78,147)</u>	<u>3,898,313</u>	<u>(24,461)</u>	<u>-</u>	<u>(23,168)</u>	<u>3,903,994</u>
OTHER FINANCING SOURCES (USES)							
Proceeds from Issuance of Debt	-	-	-	-	2,412,602	-	2,412,602
Operating Transfers Out	-	-	(3,874,429)	-	(2,230,751)	-	(6,105,180)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(3,874,429)</u>	<u>-</u>	<u>181,851</u>	<u>-</u>	<u>(3,692,578)</u>
Net Change in Fund Balance	<u>131,457</u>	<u>(78,147)</u>	<u>23,884</u>	<u>(24,461)</u>	<u>181,851</u>	<u>(23,168)</u>	<u>211,416</u>
FUND BALANCE, JULY 1, 2005	<u>508,015</u>	<u>738,091</u>	<u>(23,884)</u>	<u>(38,908)</u>	<u>(181,851)</u>	<u>204,607</u>	<u>1,206,070</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 639,472</u>	<u>\$ 659,944</u>	<u>\$ -</u>	<u>\$ (63,369)</u>	<u>\$ -</u>	<u>\$ 181,439</u>	<u>\$ 1,417,486</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$	211,416
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:

Capital asset purchases		8,458
Depreciation expense		(65,347)

Governmental funds report issuance of debt as revenue while governmental activities report the debt as a liability on the statement of net assets.:

Issuance of Long-Term Liabilities		(2,412,602)
-----------------------------------	--	-------------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in deferred revenue		126,288
Compensated absences		<u>(20,270)</u>

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(2,152,057)</u>
---	-----------	---------------------------

CITY OF RIO DELL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Taxes				
Property	\$ (36,250)	\$ (36,250)	\$ 99,043	\$ 135,293
Sales	72,000	72,000	93,893	21,893
Occupancy	9,200	9,200	8,680	(520)
Use	22	22	59	37
Licenses, permits, and franchise fees	262,861	262,861	467,395	204,534
Interest and use of property	23,200	23,200	43,299	20,099
Miscellaneous	<u>7,050</u>	<u>7,050</u>	<u>9,200</u>	<u>2,150</u>
Total Revenues	<u>338,083</u>	<u>338,083</u>	<u>721,569</u>	<u>383,486</u>
EXPENDITURES				
Current operations:				
General Government	<u>496,695</u>	<u>496,695</u>	<u>590,112</u>	<u>(93,417)</u>
Total Expenditures	<u>496,695</u>	<u>496,695</u>	<u>590,112</u>	<u>(93,417)</u>
Excess (deficiency) of revenues over expenditures	<u>(158,612)</u>	<u>(158,612)</u>	<u>131,457</u>	<u>290,069</u>
Fund balances at beginning of year	<u>508,015</u>	<u>508,015</u>	<u>508,015</u>	<u>-</u>
Fund balances at end of year	<u>\$ 349,403</u>	<u>\$ 349,403</u>	<u>\$ 639,472</u>	<u>\$ 290,069</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
CDBG FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 565,232	\$ 565,232	\$ 393,532	\$ (171,700)
Licenses, permits, and franchise fees	-	-	91	91
Interest and use of property	-	-	2,434	2,434
Total Revenues	<u>565,232</u>	<u>565,232</u>	<u>396,057</u>	<u>(169,175)</u>
EXPENDITURES				
Current operations:				
Housing and Community Development	<u>542,966</u>	<u>542,966</u>	<u>474,204</u>	<u>68,762</u>
Total Expenditures	<u>542,966</u>	<u>542,966</u>	<u>474,204</u>	<u>68,762</u>
Excess (deficiency) of revenues over expenditures	<u>22,266</u>	<u>22,266</u>	<u>(78,147)</u>	<u>(100,413)</u>
Fund balances at beginning of year	<u>738,091</u>	<u>738,091</u>	<u>738,091</u>	<u>-</u>
Fund balances at end of year	<u>\$ 760,357</u>	<u>\$ 760,357</u>	<u>\$ 659,944</u>	<u>\$ (100,413)</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
DWR INFRASTRUCTURE PROJECT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ <u>4,563,144</u>	\$ <u>4,563,144</u>	\$ <u>3,898,313</u>	\$ <u>(664,831)</u>
Total Revenues	<u>4,563,144</u>	<u>4,563,144</u>	<u>3,898,313</u>	<u>(664,831)</u>
EXPENDITURES				
Current operations:				
General Government	812,109	812,109	-	812,109
Capital outlay	<u>4,137,891</u>	<u>4,137,891</u>	-	<u>4,137,891</u>
Total Expenditures	<u>4,950,000</u>	<u>4,950,000</u>	-	<u>4,950,000</u>
Excess (deficiency) of revenues over expenditures	<u>(386,856)</u>	<u>(386,856)</u>	<u>3,898,313</u>	<u>4,285,169</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	-	-	<u>(3,874,429)</u>	<u>(3,874,429)</u>
Net Change in Fund Balance	<u>(386,856)</u>	<u>(386,856)</u>	<u>23,884</u>	<u>410,740</u>
Fund balances at beginning of year	<u>(23,884)</u>	<u>(23,884)</u>	<u>(23,884)</u>	-
Fund balances at end of year	\$ <u>(410,740)</u>	\$ <u>(410,740)</u>	\$ <u>-</u>	\$ <u>410,740</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
WINTER STORM DAMAGE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes				
Intergovernmental	\$ _____ -	\$ _____ -	\$ _____ 481,630	\$ _____ 481,630
Total Revenues	<u> </u> -	<u> </u> -	<u> </u> 481,630	<u> </u> -
EXPENDITURES				
Current operations:				
Housing and Community Development	-	-	444,850	(444,850)
Capital outlay	<u> </u> -	<u> </u> -	<u> </u> 61,241	<u> </u> (61,241)
Total Expenditures	<u> </u> -	<u> </u> -	<u> </u> 506,091	<u> </u> (506,091)
Excess (deficiency) of revenues over expenditures	<u> </u> -	<u> </u> -	<u> </u> (24,461)	<u> </u> (24,461)
Fund balances at beginning of year	<u> </u> (38,908)	<u> </u> (38,908)	<u> </u> (38,908)	<u> </u> -
Fund balances at end of year	\$ <u> </u> (38,908)	\$ <u> </u> (38,908)	\$ <u> </u> (63,369)	\$ <u> </u> (24,461)

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
DHS INFILTRATION GALLERY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes				
Intergovernmental	\$ 1,500,000	\$ 1,500,000	\$ -	\$ (1,500,000)
Total Revenues	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>	<u>(1,500,000)</u>
 EXPENDITURES				
Current operations:				
General Government	123,000	123,000	-	123,000
Capital outlay	<u>1,300,000</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
Total Expenditures	<u>1,423,000</u>	<u>1,423,000</u>	<u>-</u>	<u>1,423,000</u>
Excess (deficiency) of revenues over expenditures	<u>77,000</u>	<u>77,000</u>	<u>-</u>	<u>(77,000)</u>
 OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	-	2,412,602	2,412,602
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>(2,230,751)</u>	<u>(2,230,751)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>181,851</u>	<u>181,851</u>
Net Change in Fund Balance	<u>77,000</u>	<u>77,000</u>	<u>181,851</u>	<u>104,851</u>
Fund balances at beginning of year	<u>(181,851)</u>	<u>(181,851)</u>	<u>(181,851)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (104,851)</u>	<u>\$ (104,851)</u>	<u>\$ -</u>	<u>\$ 104,851</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ -	\$ 311,705	\$ 311,705
Accounts and Grants Receivable	141,650	61,925	203,575
Prepaid Expenses	-	-	-
Due From Other Funds	-	187,476	187,476
Assessments Receivable, Current Portion	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total Current Assets	<u>171,650</u>	<u>561,106</u>	<u>732,756</u>
Long-Term Assets			
Assessments Receivable, Net of Current Portion	<u>223,950</u>	<u>-</u>	<u>223,950</u>
Capital Assets			
Construction in Progress	58,638	6,720,722	6,779,360
Land	252,715	-	252,715
Buildings & Improvements	-	129,100	129,100
Infrastructure	-	379,774	379,774
Machinery, Vehicles & Equipment	304,742	626,376	931,118
Less: Accumulated Depreciation	<u>(180,400)</u>	<u>(461,321)</u>	<u>(641,721)</u>
Capital Assets, net	<u>435,695</u>	<u>7,394,651</u>	<u>7,830,346</u>
Total Long-Term Assets	<u>659,645</u>	<u>7,394,651</u>	<u>8,054,296</u>
TOTAL ASSETS	<u>831,295</u>	<u>7,955,757</u>	<u>8,787,052</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	47,776	27,845	75,621
Due to Other Funds	187,476	-	187,476
Customer Deposits	335	21,147	21,482
Accrued Compensated Absences	3,950	5,480	9,430
Notes and Bonds Payable, Current Portion	<u>20,000</u>	<u>21,395</u>	<u>41,395</u>
Total Current Liabilities	<u>259,537</u>	<u>75,867</u>	<u>335,404</u>
Non-Current Liabilities			
Notes and Bonds Payable	<u>260,000</u>	<u>162,505</u>	<u>422,505</u>
Total Non-Current Liabilities	<u>260,000</u>	<u>162,505</u>	<u>422,505</u>
TOTAL LIABILITIES	<u>519,537</u>	<u>238,372</u>	<u>757,909</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	155,695	7,210,751	7,366,446
Unrestricted	<u>156,063</u>	<u>506,634</u>	<u>662,697</u>
TOTAL NET ASSETS	<u>\$ 311,758</u>	<u>\$ 7,717,385</u>	<u>\$ 8,029,143</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Sale of Water	\$ -	\$ 566,003	\$ 566,003
Service Fees	451,260	-	451,260
Grant Revenue	58,638	-	58,638
Connection Fees	24,150	56,700	80,850
Late Fees	-	18,950	18,950
Other Fees	<u>2,856</u>	<u>8,721</u>	<u>11,577</u>
Total Operating Revenues	<u>536,904</u>	<u>650,374</u>	<u>1,187,278</u>
OPERATING EXPENSES			
Personnel	127,149	174,628	301,777
Insurance	15,167	23,148	38,315
Utilities	36,041	57,746	93,787
Maintenance and Operations	178,952	178,866	357,818
Depreciation	<u>60,948</u>	<u>142,238</u>	<u>203,186</u>
Total Operating Expenses	<u>418,257</u>	<u>576,626</u>	<u>994,883</u>
Operating Income/(Loss)	<u>118,647</u>	<u>73,748</u>	<u>192,395</u>
NON-OPERATING REVENUES (EXPENSES)			
Transfers in	-	6,105,180	6,105,180
Interest income	84	147	231
Interest expense	<u>(14,750)</u>	<u>(7,952)</u>	<u>(22,702)</u>
Total Non-Operating Revenues (Expenses)	<u>(14,666)</u>	<u>6,097,375</u>	<u>6,082,709</u>
Change in Net Assets	<u>103,981</u>	<u>6,171,123</u>	<u>6,275,104</u>
NET ASSETS, JULY 1, 2005	<u>207,777</u>	<u>1,546,262</u>	<u>1,754,039</u>
NET ASSETS, JUNE 30, 2006	<u>\$ 311,758</u>	<u>\$ 7,717,385</u>	<u>\$ 8,029,143</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Sewer</u>	<u>Business-type Activities</u> <u>Water</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 478,278	\$ 718,847	\$ 1,197,125
Cash deposits (refunded) received	(338)	471	133
Cash paid to suppliers	(264,860)	(244,187)	(509,047)
Cash paid to employees	<u>(127,149)</u>	<u>(174,628)</u>	<u>(301,777)</u>
Net Cash Provided by Operating Activities	<u>85,931</u>	<u>300,503</u>	<u>386,434</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of fixed assets	(56,265)	(6,095,480)	(6,151,745)
Principal paid on debt	(15,000)	(20,811)	(35,811)
Interest payments on debt	(14,750)	(7,952)	(22,702)
Transfers in from other funds	<u>-</u>	<u>6,105,180</u>	<u>6,105,180</u>
Net Cash Used for Capital and Related Financing Activities	<u>(86,015)</u>	<u>(19,063)</u>	<u>(105,078)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash and investments	<u>84</u>	<u>147</u>	<u>231</u>
Net Cash Provided by Investing Activities	<u>84</u>	<u>147</u>	<u>231</u>
Net Increase in Cash and Cash Equivalents	<u>-</u>	<u>281,587</u>	<u>281,587</u>
Cash and Cash Equivalents at July 1, 2005	<u>-</u>	<u>30,118</u>	<u>30,118</u>
Cash and Cash Equivalents at June 30, 2006	<u>\$ -</u>	<u>\$ 311,705</u>	<u>\$ 311,705</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	118,647	73,748	192,395
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	60,948	142,239	203,187
Changes in assets and liabilities			
(Increase) Decrease in accounts and grants receivable	(58,626)	(11,230)	(69,856)
(Increase) Decrease in due from other funds	-	79,703	79,703
Increase (Decrease) in accounts payable and accrued expenses	45,003	15,572	60,575
Increase (Decrease) in deposits payable	(338)	471	133
Increase (Decrease) in due to other funds	<u>(79,703)</u>	<u>-</u>	<u>(79,703)</u>
Net Cash Provided by Operating Activities	<u>\$ 85,931</u>	<u>\$ 300,503</u>	<u>\$ 386,434</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency</u> <u>Funds</u>
ASSETS	
Current Assets	
Cash (Note 2)	\$ <u>3,392</u>
Total Assets	<u>3,392</u>
LIABILITIES	
Current Liabilities	
Deposits in Trust	<u>3,392</u>
Total Liabilities	\$ <u>3,392</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Rio Dell was incorporated under the laws of the State of California on February 26, 1965. The City operates under a Council-Manager form of government and is governed by five elected city council members. The City provides the following services as authorized by its charter: public safety (police), streets and highways, public improvements, land use, building and housing standards, utilities (water and sewer), and administrative and fiscal services.

The financial statements of the City have been prepared in conformity with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to government entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14. No component units were determined to exist and therefore are not included in this financial statement.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. For the fiscal year ended June 30, 2004, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. Significant changes in the Basic Financial Statements include the following:

- The financial statements now include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements are prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to prospectively report infrastructure assets.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to government entities. Included within the reporting entity is the City of Rio Dell. Excluded from the reporting entity are several other governmental agencies, including the County of Humboldt, the Rio Dell Elementary School District and the Rio Dell Fire Protection District, which provide services in the City of Rio Dell.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Ventures

Also excluded from the reporting entity were the following joint ventures in which the City of Rio Dell participates:

Humboldt Transit Authority

Humboldt Transit Authority (HTA) was created as a separate legal entity by a joint powers agreement between Humboldt County and the Cities of Fortuna, Eureka, Arcata, Trinidad, and Rio Dell. The governing board consists of a city council member and an alternate member appointed from each participating city, as well as two board members and up to two alternate members appointed by the Humboldt County Board of Supervisors. HTA is responsible for adopting its own budget and has the power to incur debts, liabilities, or other obligations. On commencement of operations of HTA, the County contributed 50 percent of the initial equity, and the participating cities jointly contributed 50 percent based upon population data. The participants do not have an ongoing equity interest in HTA. However, the participants do share operating costs of HTA, and the current share of the City of Rio Dell is 2.8 percent. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received and property shall be divided in a manner agreed upon by the parties. During the year ended June 30, 2006, the City's share of operating cost was \$22,806 to operate the Redwood Transit System. Complete financial statements for Humboldt Transit Authority may be obtained at the offices of the Authority at 133 V Street, Eureka, California 95501.

Hazardous Materials Response Authority

Hazardous Materials Response Authority (HMRA) was created as a separate legal entity by a joint powers agreement between the County of Humboldt, the County of Del Norte, and Cities of Eureka, Crescent City, Arcata, Blue Lake, Fortuna, Trinidad, and Rio Dell. (The City of Ferndale withdrew from the agreement during 1994-1995). The purpose of this joint venture is to pool resources of the participants to provide a united, coordinated, orderly, positive, and more effective means of aiding and assisting in the formulation, administration, implementation and maintenance of an area-wide hazardous materials response team.

HMRA is governed by a board of director composed by one member and an alternate appointed by each participant. It adopts its own budget and has the powers to incur debts, liabilities, or obligations. The City of Eureka is responsible for directing the operations of Hazardous Materials Response Teams and for the accounting of HMRA, and in return HMRA reimburses the City for the costs of operation and accounting services. On commencements of HMRA, the participants agreed to contribute a proportionate share of the cost of operations based on population. The participants do not have an ongoing equity interest in HMRA. However, the participants do share the operating costs on HMRA, and the current share of the City of Rio Dell is 1.9 percent, based on population. At termination of the agreement, all surplus monies will be returned to the participants in proportion of the amounts received by HMRA; property shall be divided in a manner agreed upon by the participants. Complete financial statements of HMRA are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

Redwood Region Economic Development Commission

Redwood Region Economic Development Commission (RREDC) was established on November 1, 1977, under a Joint Exercise of Powers Agreement among the nineteen public agencies within Humboldt County, including the City of Rio Dell. RREDC is a separate public entity created to aid, assist, and coordinate the formulation, administration, and the implementation of the Economic Development Action Plan and Strategy for Humboldt County, and to assist in the implementation of economic development projects and programs to improve the quality of life in the area. RREDC is governed by one member and an alternate appointed by each participant. Complete financial statements for RREDC are on file at the offices of RREDC at 520 E Street, Eureka, California 95001.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The City's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police, recreation, and general and administrative services are classified as governmental activities. The City's sewer and water services are classified as business-type activities.

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Program revenues must be directly associated with the function (police, public works, etc.) or a business type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements:

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

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

GASB 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Nonmajor funds are combined in a single column in the fund financial statements. The City reports the following major funds.

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CDBG - The CDBG Fund is used to account for the transactions involving the Community Development Block Grant funding.

DWR- Infrastructure Project - The DWR - Infrastructure Project Fund is used to account for the water infrastructure project undertaken by the City using funds provided by the Department of Water Resources.

Winter Storm Damage - The Winter Storm Damage Fund is used to account for revenue and expenditures related to funding from the State's Office of Emergency Services.

DHS Infiltration Gallery - The DHS Infiltration Gallery Fund is used to account for revenue and expenditures related to funding from the State's Department of Health Services for the City's Water Infiltration Gallery Project.

GASB 34 eliminates the presentation of account groups, but provides for these records to be maintained. Information for the City's general capital assets and general long-term debt is presented in the governmental activities column of the government-wide statement of net assets. Information for the capital assets and long-term debt of the City's utilities is presented in the enterprise fund financial statements and in the business-type activities column of the government-wide financial statements.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (not included in government-wide statements)

Agency Fund - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All Governmental Funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available expendable financial resources during a given period. These funds use fund balance as their measure of available expendable financial resources at the end of the period.
- b. All Proprietary Funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less and pooled cash when purchased to be cash equivalents.

E. Inventory

The City does not record an inventory of expendable supplies. The cost is recorded as an expenditure at the time individual inventory items are purchased. Any amounts on hand at June 30, 2006 are not material.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2006, were not considered material. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines and other fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Any doubtful accounts at June 30, 2006, were not considered material.

G. Fixed Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statement, fixed assets with a historical cost over \$5,000 are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Improvements	50 years
Equipment	7 years
Vehicles	7 years
Infrastructure	50 years
Roads	50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. Accumulated Compensated Absences

It is the City's policy to permit employees to accrue earned but unused vacation and sick leave, which will be paid to employees upon separation from City services. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees, while proprietary funds report the liability as it is incurred.

I. Interfund Transactions

Following is a description of the four basic types of interfund transactions made during the year and the related accounting policies:

1. Quasi-external charges for current services - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.
3. Residual equity transfers - transactions recording equity contributions and distributions between funds. The receiving fund records such transactions as an addition to fund balance, if it is a Governmental Fund, or a capital contribution, if it is a Proprietary Fund. The disbursing fund records the transfer as a reduction of fund balance, retained earnings, or contributed capital.
4. Operating Transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

K. Property Tax Revenues

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable on November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the City does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The City's tax rate is \$1.00/\$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, the State passed legislation which permanently shifted an additional amount of property taxes from cities to schools. This amount was partially offset by one-time payments by the State to cities from the State "Transportation Planning and Development" amount. Also during 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted. Under this plan, the City receives 100 percent of the secured property tax levied to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible and no allowance for uncollectible taxes is provided. Property tax revenues are recognized when they become available. "Available" means due, or past due, and receivable within the current period and collected or expected to be collected soon enough thereafter to be used to pay liabilities for the current period. This period is 60 days from the end of the fiscal year.

L. Grant Revenues

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met.

M. Operating Revenues

Operating revenues for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue not related to capital and related financing, noncapital financing or investing activities.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, governmental fund expenditures are classified by character, proprietary fund expenditures are classified by operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents including cash on hand, at June 30, 2006, consisted of the following:

Governmental Activities	\$ 2,650,533
Business-Type Activities	<u>311,705</u>
Total Cash and cash equivalents	<u>\$ 2,962,238</u>

Fiduciary Funds	<u>\$ 3,392</u>
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Cash and investments were comprised of the following at June 30, 2006.

Cash on hand and in financial institutions	\$ 497,543
Local Agency Investment Fund	<u>2,464,695</u>
Total Cash and cash equivalents Governmental and Business-type activities	<u>\$ 2,962,238</u>

Fiduciary Funds - Cash on hand and in financial institutions	<u>\$ 3,392</u>
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The City follows the practice of pooling cash and cash equivalents of all funds except for restricted funds required to be held by outside fiscal agents.

Interest income from pooled cash and cash equivalents is allocated on a quarterly basis based on the month end cash balance in each fund.

Deposits

The California Government Code requires California banks and savings and loan association to collateralize a City's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a City's deposits. California law also allows financial institutions to collateralized City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by Federal Deposit Insurance.

At year end the carrying amount of the City's cash deposits (including amounts in checking and savings accounts) was \$155,729. All of the cash in banks and savings and loans was insured by federal depository insurance or collateralized with securities held by the City by its agent in the City's name.

At June 30, 2006, restricted cash was held as follows:

Proprietary Fund	
Customer Deposits	<u>\$ 21,482</u>

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Investments

In accordance with Government Code Section 53601, the City may invest in the following types of investments:

- Bonds issued by the State of California and/or any local agency within the State of California
- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposit) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Acceptances
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements (Repos)
- Passbook Savings Account Demand Deposits
- Reverse Repurchase Agreements
- Medium Term Corporate Notes
- Mutual Funds Holding the above allowable investments

Credit Risk, Carrying Amount and Fair Value of Investments

Investments that are represented by specific identifiable securities are classified as to credit risk category. Category 1 includes investments that are insured or registered or for which collateral is held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or its trust department, but not in the City's name. Category 3 includes uninsured and unregistered investments for which securities are held by the broker or dealer or by its trust department or agent but not in the City's name.

The City's investments in cash with fiscal agent and the State Treasurer investment pool, known as Local Agency Investment Fund (LAIF) are not categorized since these funds and pools contain a diversified portfolio of securities within each category defined above.

	<u>Carrying Value</u>	<u>Fair Value</u>
Not Categorized		
Investment in Local Agency Investment Fund	\$ <u>2,464,695</u>	\$ <u>2,464,695</u>
Total Investment	\$ <u>2,464,695</u>	\$ <u>2,464,695</u>

Reverse Repurchase Agreements

State statutes permit the City to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. However, at no time during the fiscal year did the City borrow funds through the use of reverse repurchase agreements.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3: CAPITAL ASSETS

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2006</u>
Governmental activities:				
Capital assets being depreciated				
Equipment	\$ 446,745	\$ 8,458	\$ -	\$ 455,203
Vehicles	104,248	-	-	104,248
Streets and roads	492,304	-	-	492,304
Infrastructure	148,840	-	-	148,840
Total assets being depreciated	<u>1,192,137</u>	<u>8,458</u>	<u>-</u>	<u>1,200,595</u>
Less accumulated depreciation				
Equipment	(292,899)	(41,016)	-	(333,915)
Vehicles	(74,466)	(11,508)	-	(85,974)
Streets and roads	(6,737)	(2,977)	-	(9,714)
Infrastructure	(19,692)	(9,846)	-	(29,538)
Total accumulated depreciation	<u>(393,794)</u>	<u>(65,347)</u>	<u>-</u>	<u>(459,141)</u>
Governmental activities capital assets, net	<u>\$ 798,343</u>	<u>\$ (56,889)</u>	<u>\$ -</u>	<u>\$ 741,454</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 252,715	\$ -	\$ -	\$ 252,715
Construction in progress	631,272	6,148,088	-	6,779,360
Total capital assets not being depreciated	<u>883,987</u>	<u>6,148,088</u>	<u>-</u>	<u>7,032,075</u>
Capital assets being depreciated				
Infrastructure	379,774	-	-	379,774
Buildings and improvements	129,100	-	-	129,100
Equipment	890,261	13,357	-	903,618
Vehicles	27,500	-	-	27,500
Total assets being depreciated	<u>1,426,635</u>	<u>13,357</u>	<u>-</u>	<u>1,439,992</u>
Less accumulated depreciation				
Infrastructure	(93,451)	(12,660)	-	(106,111)
Buildings and improvements	(71,435)	(4,303)	-	(75,738)
Equipment	(265,398)	(180,724)	-	(446,122)
Vehicles	(8,250)	(5,500)	-	(13,750)
Total accumulated depreciation	<u>(438,534)</u>	<u>(203,187)</u>	<u>-</u>	<u>(641,721)</u>
Business-type capital assets, net	<u>\$ 1,872,088</u>	<u>\$ 5,958,258</u>	<u>\$ -</u>	<u>\$ 7,830,346</u>

Depreciation was charged to functions based on their usage of the related assets as follows:

Governmental Activities:	
General government	\$ 40,596
Public safety	11,508
Highways and streets	9,846
Housing and community development	2,977
Public Services	420
Total governmental activities depreciation expense	<u>\$ 65,347</u>

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4: RESTRICTED CASH

The City is legally and contractually required to maintain restricted cash balances for various grant projects, loans and other uses. Those restrictions are as follows:

CDBG Revolving Loan Fund and Program Income Reuse

The City has received Community Development Block Grants, most of which have been used for drainage projects and to provide housing rehabilitation loans to Rio Dell citizens. State and federal regulations require that a percentage of the repayment of the loans and income earned on those loans be retained and either loaned once again or used for other eligible CDBG activities. As of June 30, 2006, the City had \$46,038 in cash deposits set aside for this purpose.

NOTE 5: NOTES RECEIVABLE

The City has received a number of Community Development Block Grants, portions of which have been used for housing rehabilitation and economic development (small business) loans. The City has two basic types of housing rehabilitations loans: Deferred Rehabilitation Loans (DRL) and Full Assurance Loans (FAL).

The Deferred Rehabilitation Loans are non interest-bearing loans that are due and payable to the City when the property is either sold or title of the property is transferred. As of June 30, 2006, there was \$1,105,041 in outstanding DRL loans.

Full Assurance Loans bear interest from 1 to 5 percent, are generally amortized over 15 years, and require the borrowers to make monthly payments. As of June 30, 2006, there was \$171,880 in outstanding FAL loans.

The non-current balance of notes receivable has been offset in the financial statements by deferred revenue as it is not expected to be repaid within the current fiscal year.

NOTE 6: INTERFUND TRANSACTIONS

Interfund transactions for the year ended June 30, 2006, were as follows:

Transfer from the DWR Infrastructure Fund to the General Fund for expenses related to the Water Infrastructure Project	\$ 3,874,429
Transfer from the DHS Infiltration Gallery Fund to the General Fund for expenses related to the Infiltration Gallery Project	<u>2,230,751</u>
Total Interfund Transfers	<u>\$ 6,105,180</u>

NOTE 7: LOAN PAYABLE- LINE OF CREDIT

In September 2005 the City entered into a line of credit agreement with Rural Community Assistance Corporation in the amount of \$3,600,000 with an annual interest rate of 5%. The line of credit was intended to provide temporary financing to the City until it received grant funds from the California Department of Water Resources (DWR) for renovation of the water distribution and storage system and from the State Department of Health Services for a raw water intake structure replacement project. Interest payments are due at the end of each month in arrears. The line is secured by the grant funds receivable from the State granting agencies. The principal balance of the line of credit at June 30, 2006 was \$3,346,543 and is due in full on October 1, 2006.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8: LONG TERM LIABILITIES

Governmental Activities

The following is a summary of long-term liabilities transactions related to governmental activities of the City for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Retirement	Balance June 30, 2006
DHS Infiltration Gallery Loan	\$ -	\$ 2,412,602	\$ -	\$ 2,412,602
Compensated Absences	16,066	20,271	-	36,337
Governmental Activities Long-Term Liabilities	<u>\$ 16,066</u>	<u>\$ 2,432,873</u>	<u>\$ -</u>	<u>\$ 2,448,939</u>

DHS Infiltration Gallery Loan

In August 2005, the City entered into a loan agreement with the California Department of Health Services, Drinking Water and Environmental Services Division, for a loan in an amount up to \$2,720,000. The proceeds from the loan are to be used to assist in financing construction of a project which will enable the City to meet safe drinking water standards established under the Health and Safety Code and California Code of Regulations. The non-interest bearing loan calls for 50 equal semiannual payments due in July and January of each year, beginning in July 2009. At June 30, 2006 the balance of the note was \$2,412,602.

Based on the maximum balance of the loan the annual requirements to amortize the note are as follows:

Year Ending June 30	Principal
2010	\$ 108,800
2011	108,800
2012 - 2016	544,000
2017 - 2021	544,000
2022 - 2026	544,000
2027 - 2031	544,000
2032 - 2034	<u>326,400</u>
Total	<u>\$ 2,720,000</u>

Compensated absences

The liability for compensated absences is the accrued liability for earned but unused vacation which will be paid to employees upon separation from the City's service.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8: LONG TERM LIABILITIES (CONTINUED)

Business-type Activities

The following is a summary of long-term debt transactions related to business-type activities of the City for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Notes payable:				
FMHA Emergency Drought Relief Loan	\$ 74,000	\$ -	\$ (4,000)	\$ 70,000
FMHA Special Assessment Bonds	295,000	-	(15,000)	280,000
State of California Department of Water Resources	130,711	-	(16,811)	113,900
Total notes payable	499,711	-	(35,811)	463,900
Other liabilities:				
Compensated Absences	9,430	-	-	9,430
Business-type Activities Long-term Debt	\$ 509,141	\$ -	\$ (35,811)	\$ 473,330

Notes Payable:

FMHA Emergency Drought Relief Loan

On March 3, 1978, the City entered into a loan agreement with Farmer's Home Administration for a loan in the amount of \$129,100. The agreement calls for eighty semiannual payments of interest at 5 percent due in June and December of each year, and annual payments of principal that increase from \$1,000 per year at the beginning of the loan to \$5,000 in later years. Currently, the principal payments are at \$2,412,602. The loan matures in the year 2018.

The annual requirements to amortize the note are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 4,000	\$ 3,500	\$ 7,500
2008	4,000	3,300	7,300
2009	5,000	3,100	8,100
2010	5,000	2,850	7,850
2011	5,000	2,600	7,600
2012 - 2016	31,000	8,750	39,750
2017 - 2018	16,000	1,200	17,200
Total	\$ 70,000	\$ 25,300	\$ 95,300

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8: LONG TERM LIABILITIES (CONTINUED)

FMHA Special Assessment Bonds

In November 1978, the City borrowed \$535,800 through the issuance of bonds to finance improvements to the City's sewage collection system. The terms of an agreement with FMHA require semiannual payments of interest at 5 percent and annual payments of principal that increase from \$10,000 in the early years of the agreement to \$30,000 in the later years. Currently, the principal payments are \$15,000. The bonds mature in 2018.

The annual requirements to amortize the note are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 20,000	\$ 14,000	\$ 34,000
2008	20,000	13,000	33,000
2009	20,000	12,000	32,000
2010	20,000	11,000	31,000
2011	20,000	10,000	30,000
2012 - 2016	120,000	33,500	153,500
2017 - 2018	<u>60,000</u>	<u>4,500</u>	<u>64,500</u>
Total	<u>\$ 280,000</u>	<u>\$ 98,000</u>	<u>\$ 378,000</u>

State of California Department of Water Resources

On February 25, 1991, the City entered into a loan agreement with the State of California Department of Water Resources to finance improvements of the City's water system. Under this agreement, the City borrowed \$304,324 at an interest rate of 3.4 percent. The note is payable in forty semiannual payments of \$10,583 on April and October of each year for twenty years.

The annual requirements to amortize the note are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 17,396	\$ 3,771	\$ 21,167
2008	17,992	3,174	21,166
2009	18,627	2,539	21,166
2010	19,267	1,899	21,166
2011 - 2012	<u>40,618</u>	<u>1,714</u>	<u>42,332</u>
Total	<u>\$ 113,900</u>	<u>\$ 13,097</u>	<u>\$ 126,997</u>

Compensated absences:

The liability for compensated absences is the accrued liability for earned but unused vacation which will be paid to employees upon separation from City service.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all full-time, non-seasonal City employees, allows them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City adopted a revised deferred compensation plan in August 1997. The assets of the retirement plan are held in a trust for the exclusive benefit of the participants and their beneficiaries and are not accessible by the government or its creditors. The participants or beneficiaries assume the risk of loss from declines in the value of plan assets. The plan is administered by an independent plan administrator, International City/County Managers' Association, through an administrative service agreement with the City.

Effective June 30, 1998, the City adopted GASB 32 which provides accounting and reporting guidance for deferred compensation plans under the revised provisions of Internal Revenue Code Section 457. Under GASB 32, the assets and liabilities of the plan are not reported in the financial statements of the City.

For the fiscal year ended June 30, 2006, the following contributions were made to the plan:

Direct contributions to employees' benefit	\$ 37,479
Deferred contributions from employees' compensation	<u>3,323</u>
Total	\$ <u><u>40,802</u></u>

NOTE 10: CONTINGENCIES

The City has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Animal Control</u>	<u>State Park Bond</u>	<u>Rural Community Assistance</u>	<u>Gas Tax</u>
<u>ASSETS</u>				
Cash and Investments	\$ -	\$ -	\$ -	\$ 132,020
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ 132,020
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	-	-	3,698
Due to Other Funds	44,909	-	18,215	-
TOTAL LIABILITIES	44,909	-	18,215	3,698
FUND BALANCES:				
Unreserved: Undesignated	(44,909)	-	(18,215)	128,322
TOTAL FUND BALANCES	(44,909)	-	(18,215)	128,322
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ -	\$ 132,020

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>TDA</u>	<u>Traffic Safety</u>	<u>ISTEA</u>	<u>Solid Waste</u>
<u>ASSETS</u>				
Cash and Investments	\$ <u>118,250</u>	\$ <u>14,734</u>	\$ <u>-</u>	\$ <u>20,143</u>
TOTAL ASSETS	\$ <u>118,250</u>	\$ <u>14,734</u>	\$ <u>-</u>	\$ <u>20,143</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	3,982	-	-	118
Due to Other Funds	<u>-</u>	<u>-</u>	<u>17,881</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,982</u>	<u>-</u>	<u>17,881</u>	<u>118</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>114,268</u>	<u>14,734</u>	<u>(17,881)</u>	<u>20,025</u>
TOTAL FUND BALANCES	<u>114,268</u>	<u>14,734</u>	<u>(17,881)</u>	<u>20,025</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>118,250</u>	\$ <u>14,734</u>	\$ <u>-</u>	\$ <u>20,143</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>FEMA/OES</u>	<u>Special Law Enforcement Service</u>	<u>Local Law Enforcement Block Grant</u>	<u>Vehicle Abatement</u>
<u>ASSETS</u>				
Cash and Investments	\$ <u>-</u>	\$ <u>120,358</u>	\$ <u>2,702</u>	\$ <u>7,993</u>
TOTAL ASSETS	\$ <u>-</u>	\$ <u>120,358</u>	\$ <u>2,702</u>	\$ <u>7,993</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	75	-	887
Due to Other Funds	<u>24,882</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>24,882</u>	<u>75</u>	<u>-</u>	<u>887</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>(24,882)</u>	<u>120,283</u>	<u>2,702</u>	<u>7,106</u>
TOTAL FUND BALANCES	<u>(24,882)</u>	<u>120,283</u>	<u>2,702</u>	<u>7,106</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>-</u>	\$ <u>120,358</u>	\$ <u>2,702</u>	\$ <u>7,993</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Peace Officer Standards & Training	Drug Abuse Resistance Education	Street & Transportation Improvement	California Law Enforcement Technology & Equipment Program
<u>ASSETS</u>				
Cash and Investments	\$ <u>3,784</u>	\$ <u>21,335</u>	\$ <u>25,323</u>	\$ <u>1,507</u>
TOTAL ASSETS	\$ <u>3,784</u>	\$ <u>21,335</u>	\$ <u>25,323</u>	\$ <u>1,507</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	-	-	199
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>199</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>3,784</u>	<u>21,335</u>	<u>25,323</u>	<u>1,308</u>
TOTAL FUND BALANCES	<u>3,784</u>	<u>21,335</u>	<u>25,323</u>	<u>1,308</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>3,784</u>	\$ <u>21,335</u>	\$ <u>25,323</u>	\$ <u>1,507</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Prop 204</u>	<u>Clean Water Grant Well #6</u>	<u>Recycling</u>	<u>Weed Abatement</u>
<u>ASSETS</u>				
Cash and Investments	\$ <u>81,289</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
TOTAL ASSETS	\$ <u>81,289</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	-	25	179
Due to Other Funds	<u>-</u>	<u>88</u>	<u>61</u>	<u>8,028</u>
TOTAL LIABILITIES	<u>-</u>	<u>88</u>	<u>86</u>	<u>8,207</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>81,289</u>	<u>(88)</u>	<u>(86)</u>	<u>(8,207)</u>
TOTAL FUND BALANCES	<u>81,289</u>	<u>(88)</u>	<u>(86)</u>	<u>(8,207)</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>81,289</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Code Enforcement	DWR Grant	Water Pump Replacement	TEA-21
<u>ASSETS</u>				
Cash and Investments	\$ -	\$ -	\$ 26,540	\$ -
TOTAL ASSETS	\$ -	\$ -	\$ 26,540	\$ -
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	-	-	-
Due to Other Funds	1,432	5,367	-	133,199
TOTAL LIABILITIES	1,432	5,367	-	133,199
FUND BALANCES:				
Unreserved: Undesignated	(1,432)	(5,367)	26,540	(133,199)
TOTAL FUND BALANCES	(1,432)	(5,367)	26,540	(133,199)
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ 26,540	\$ -

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Water Feasibility Study	Brownfield Grant EPA	Clean Water Grant Match	Totals
<u>ASSETS</u>				
Cash and Investments	\$ -	\$ -	\$ -	\$ 575,978
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ 575,978
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	-	-	-	9,163
Due to Other Funds	123,303	7,806	205	385,376
TOTAL LIABILITIES	123,303	7,806	205	394,539
FUND BALANCES:				
Unreserved: Undesignated	(123,303)	(7,806)	(205)	181,439
TOTAL FUND BALANCES	(123,303)	(7,806)	(205)	181,439
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ -	\$ 575,978

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Animal Control</u>	<u>State Park Bond</u>	<u>Rural Community Assistance</u>	<u>Gas Tax</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ 67,012
Intergovernmental	-	-	1,500	10,388
Licenses, permits, and franchise fees	1,702	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>1,702</u>	<u>-</u>	<u>1,500</u>	<u>77,400</u>
<u>EXPENDITURES</u>				
Current				
General Government	9,772	-	-	-
Public Safety	-	-	-	-
Highways and Streets	-	-	-	73,847
Housing and Community Development	-	-	-	-
Public Services	-	-	-	-
Capital Outlay	-	-	-	39
Total Expenditures	<u>9,772</u>	<u>-</u>	<u>-</u>	<u>73,886</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(8,070)</u>	<u>-</u>	<u>1,500</u>	<u>3,514</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(8,070)</u>	<u>-</u>	<u>1,500</u>	<u>3,514</u>
Fund Balances, July 1, 2005	<u>(36,839)</u>	<u>-</u>	<u>(19,715)</u>	<u>124,808</u>
Fund Balances, June 30, 2006	<u>\$ (44,909)</u>	<u>\$ -</u>	<u>\$ (18,215)</u>	<u>\$ 128,322</u>

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>TDA</u>	<u>Traffic Safety</u>	<u>ISTEA</u>	<u>Solid Waste</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ 107,649	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Licenses, permits, and franchise fees	-	-	-	8,075
Miscellaneous	-	-	-	486
Total Revenues	<u>107,649</u>	<u>-</u>	<u>-</u>	<u>8,561</u>
<u>EXPENDITURES</u>				
Current				
General Government	66,277	-	-	-
Public Safety	-	-	8,690	-
Highways and Streets	-	-	-	-
Housing and Community Development	-	-	-	-
Public Services	-	-	-	11,700
Capital Outlay	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>66,302</u>	<u>-</u>	<u>8,690</u>	<u>11,700</u>
Excess (Deficiency) of Revenues over Expenditures	<u>41,347</u>	<u>-</u>	<u>(8,690)</u>	<u>(3,139)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>41,347</u>	<u>-</u>	<u>(8,690)</u>	<u>(3,139)</u>
Fund Balances, July 1, 2005	<u>72,921</u>	<u>14,734</u>	<u>(9,191)</u>	<u>23,164</u>
Fund Balances, June 30, 2006	<u>\$ 114,268</u>	<u>\$ 14,734</u>	<u>\$ (17,881)</u>	<u>\$ 20,025</u>

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>FEMA/OES</u>	<u>Special Law Enforcement Service</u>	<u>Local Law Enforcement Block Grant</u>	<u>Vehicle Abatement</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,050	-	-
Licenses, permits, and franchise fees	-	-	-	2,479
Miscellaneous	-	-	-	-
Total Revenues	<u>-</u>	<u>100,050</u>	<u>-</u>	<u>2,479</u>
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	-
Public Safety	-	101,825	2,587	6,276
Highways and Streets	-	-	-	-
Housing and Community Development	-	-	-	-
Public Services	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>101,825</u>	<u>2,587</u>	<u>6,276</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>(1,775)</u>	<u>(2,587)</u>	<u>(3,797)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>(1,775)</u>	<u>(2,587)</u>	<u>(3,797)</u>
Fund Balances, July 1, 2005	<u>(24,882)</u>	<u>122,058</u>	<u>5,289</u>	<u>10,903</u>
Fund Balances, June 30, 2006	<u>\$ (24,882)</u>	<u>\$ 120,283</u>	<u>\$ 2,702</u>	<u>\$ 7,106</u>

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Peace Officer Standards & Training	Drug Abuse Resistance Education	Street & Transportation Improvement	California Law Enforcement Technology & Equipment Program
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,358	-	-	-
Licenses, permits, and franchise fees	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	1,358	-	-	-
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	-
Public Safety	2,717	-	-	12,690
Highways and Streets	-	-	-	-
Housing and Community Development	-	-	-	-
Public Services	-	-	-	-
Capital Outlay	-	-	-	8,907
Total Expenditures	2,717	-	-	21,597
Excess (Deficiency) of Revenues over Expenditures	(1,359)	-	-	(21,597)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	(1,359)	-	-	(21,597)
Fund Balances, July 1, 2005	5,143	21,335	25,323	22,905
Fund Balances, June 30, 2006	\$ 3,784	\$ 21,335	\$ 25,323	\$ 1,308

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Prop 204</u>	<u>Clean Water Grant Well #6</u>	<u>Recycling</u>	<u>Weed Abatement</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	5,000	-
Licenses, permits, and franchise fees	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	800
Public Safety	-	-	-	-
Highways and Streets	-	-	-	-
Housing and Community Development	-	-	10,708	-
Public Services	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>10,708</u>	<u>800</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>(5,708)</u>	<u>(800)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>(5,708)</u>	<u>(800)</u>
Fund Balances, July 1, 2005	<u>81,289</u>	<u>(88)</u>	<u>5,622</u>	<u>(7,407)</u>
Fund Balances, June 30, 2006	<u>\$ 81,289</u>	<u>\$ (88)</u>	<u>\$ (86)</u>	<u>\$ (8,207)</u>

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

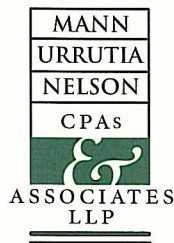
	Code Enforcement	DWR Grant	Water Pump Replacement	TEA-21
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	19,810
Licenses, permits, and franchise fees	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,810</u>
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	-
Public Safety	578	-	-	-
Highways and Streets	-	-	-	23,314
Housing and Community Development	-	-	-	-
Public Services	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>578</u>	<u>-</u>	<u>-</u>	<u>23,314</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(578)</u>	<u>-</u>	<u>-</u>	<u>(3,504)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(578)</u>	<u>-</u>	<u>-</u>	<u>(3,504)</u>
Fund Balances, July 1, 2005	<u>(854)</u>	<u>(5,367)</u>	<u>26,540</u>	<u>(129,695)</u>
Fund Balances, June 30, 2006	<u>\$ (1,432)</u>	<u>\$ (5,367)</u>	<u>\$ 26,540</u>	<u>\$ (133,199)</u>

CITY OF RIO DELL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Feasibility Study	Brownfield Grant EPA	Clean Water Grant Match	Totals
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ 174,661
Intergovernmental	-	18,764	-	156,870
Licenses, permits, and franchise fees	-	-	-	12,256
Miscellaneous	-	-	-	486
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>18,764</u>	<u>-</u>	<u>344,273</u>
<u>EXPENDITURES</u>				
Current				
General Government	-	26,553	-	103,402
Public Safety	-	-	-	135,363
Highways and Streets	-	-	-	97,161
Housing and Community Development	136	-	-	10,844
Public Services	-	-	-	11,700
Capital Outlay	-	-	-	8,971
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>136</u>	<u>26,553</u>	<u>-</u>	<u>367,441</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(136)</u>	<u>(7,789)</u>	<u>-</u>	<u>(23,168)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(136)</u>	<u>(7,789)</u>	<u>-</u>	<u>(23,168)</u>
Fund Balances, July 1, 2005	<u>(123,167)</u>	<u>(17)</u>	<u>(205)</u>	<u>204,607</u>
Fund Balances, June 30, 2006	<u>\$ (123,303)</u>	<u>\$ (7,806)</u>	<u>\$ (205)</u>	<u>\$ 181,439</u>

CITY OF RIO DELL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
Federal Emergency Management Agency		
Disaster Assistance Grant	97.036	\$ 481,630
 Environmental Protection Agency		
DHS Safe Drinking Water State Revolving Fund	66.468	2,230,751
 U.S. Department of Transportation		
Section 5307 Capital and Operating Assistance		
Highway Planning & Construction- Transportation & Equalization Act	20.205	23,314
 Office of Community Planning and Development, Department of Housing and Urban Development		
Section 108 Loan Guarantees		
Community Development Block Grants	14.248	<u>474,204</u>
		 \$ <u><u>3,209,899</u></u>



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

The Honorable Mayor and Members of the City Council
 City of Rio Dell
 Rio Del, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rio Dell, as of and for the year ended June 30, 2006, which collectively comprise the City of Rio Dell's basic financial statements and have issued our report thereon dated March 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rio Dell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the City of Rio Dell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rio Dell's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Rio Dell's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Rio Dell's financial statements that is more than inconsequential will not be prevented or detected by the City of Rio Dell's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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 of Rio Dell'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*.

PRINCIPALS

Chris A. Mann, CPA, CFP • John R. Urrutia, CPA • Michelle O. Nelson, CPA, CFE, CVA • Christine L. Collins, EA

Kriss Ann Mann, CPA CCPS • Justin J. Williams, CPA

Compliance and Other Matters (Continued)

We noted certain matters that we reported to management of the City of Rio Dell in a separate letter dated March 5, 2007.

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

Mr. Unt. Mr. CPAs

Sacramento, California
March 5, 2007



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

The Honorable Mayor and Members of the City Council
 City of Rio Dell
 Rio Dell, California

We have audited the compliance of the City of Rio Dell with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Rio Dell's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rio Dell's management. Our responsibility is to express an opinion on the City of Rio Dell's compliance based on our audit.

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

In our opinion, the City of Rio Dell complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Rio Dell is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Rio Dell internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Sacramento, California
 March 5, 2007

PRINCIPALS

Chris A. Mann, CPA, CFP • John R. Urrutia, CPA • Michelle O. Nelson, CPA, CFE, CVA • Christine L. Collins, EA

Kriss Ann Mann, CPA CCPS • Justin J. Williams, CPA

CITY OF RIO DELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Major programs are as follows:	
97.036- FEMA Disaster Assistance Grant	
14.248- Community Development Block Grant	
66.468- DHS Safe Water State Revolving Fund	
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.	None
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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings and defined in Section 510(a).	None
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