
**CITY OF RIO DELL
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2008
WITH
INDEPENDENT AUDITOR'S REPORT**

Draft

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CITY OF RIO DELL
ANNUAL FINANCIAL REPORT
JUNE 30, 2008

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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 basic 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 (the "City") as of and for the year ended June 30, 2008, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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.

In our opinion, the basic 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, 2008, and the respective changes in the financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2008 on our consideration of the City of Rio Dell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 and budgetary comparison information on pages 39 to 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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.

Sacramento, CA
November 1, 2008

Draft

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

This section of the City of Rio Dell Annual Financial Statements presents management's analysis of the City's financial performance during the fiscal year ending June 30, 2008. This information is presented in conjunction with the audited basic financial statements, which follow this section.

Fiscal Year Ending June 30, 2008 Financial Highlights

The Financial Highlights reflect the efforts of the City Council and City Staff to maximize City revenues, and to rehabilitate aging infrastructure. During the 2007-2008 year the City worked on approximately \$1.7 million in capital improvement projects; including the Tennis Court Revitalization, the 3rd and 4th Street Reconstruction, Wildwood Avenue Reconstruction, and the planning phase of the Sewer Effluent Disposal and Facilities Project. In addition to capital improvements, the City also engaged in substantial community development activities such as the downtown Brown fields Petroleum Assessment Project, the CDBG Housing Rehabilitation Program, and the Headwaters funded Economic Development Strategic Plan.

Citywide:

- At June 30, 2008, the City's net assets totaled \$12,601,337, an increase of \$1,269,874, from the prior year.
- Combined citywide revenues totaled \$4,043,766, including charges for services of \$2,153,003, operating grants and contributions of \$791,577, capital grants and contributions of \$624,888, and general revenues in the amount of \$474,298.
- Citywide expenses totaled \$2,773,892, a 9% decrease in comparison to the prior year.

Overview of the Annual Financial Report

This Annual Financial Report is in five parts:

- 1) Management's Discussion and Analysis (this part)
- 2) The Basic Financial Statements, which include the government-wide and the fund financial statements
- 3) Required Supplemental Information
- 4) Combining Statements for Non-Major Governmental Funds
- 5) Other Reports

The Basic Financial Statements

The basic financial statements are comprised of (1) the citywide financial statements and (2) the fund financial statements. These two sets of financial statements provide two different views of the City's financial activities and financial position, long-term and short-term.

The citywide financial statements provide a long-term view of the City's activities as a whole, and comprise the statement of net assets and the statement of activities. The statement of net assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The statement of activities provides information about all the City's revenues and expenses, with the emphasis on measuring net revenues and expenses of each of the City's programs. The statement of activities explains in detail the change in net assets for the year.

The citywide financial statements group all of the City's activities into governmental activities and business-

CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

type activities, as explained below. All of the amounts in the statement of net assets and the statement of activities are separated into governmental activities and business-type activities in order to provide a summary of the activities as a whole.

The fund financial statements report the City's operations in more detail than the citywide statements and focus primarily on the short-term activities of the general fund and other major funds. The fund financial statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term liabilities and other long term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary with subordinate schedules presenting the details for each of the other funds.

The City acts solely as a depository agent for various community functions. The fiduciary statements provide information about the cash balances and activities of these functions. These statements are separate from, and therefore are excluded from the City's financial statements.

Together, these statements are called the basic financial statements.

Citywide Financial Statements

- Governmental activities: All of the City's basic services are considered to be governmental activities, including general government, streets and highways, public improvements, planning and zoning, and general administrative and fiscal services. These services are supported by general City revenues such as taxes, and specific program revenues such as developer fees.
- Business-type Activities: The City's enterprise activities are reported in the water and sewer funds. These services are supported by consumption charges paid by users.
- Citywide financial statements are prepared using the full accrual basis.

Fund Financial Statements

- Governmental fund financial statements are prepared using the modified accrual basis, recognizing revenues when "measurable and available". Capital assets and long-term assets and liabilities are presented in the citywide financial statements only.
- The fund financial statements provide detailed information about each of the City's most significant funds called major funds. The concept of major funds, and the determination of which funds are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and totaled in a single column. Major funds present the major activities of the City for the year. The general fund is always a major fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.
- The City has three major funds in 2008: the General Fund, CDBG, and the Street & Transportation Improvement Program.

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Fiduciary Financial Statements

The City is the agent for certain community activities for which it collects and disperses cash, and maintains separate cash accounts. These fiduciary activities are reported in the separate statement of fiduciary net assets. These activities are excluded from the City's other financial statements because the City cannot utilize them to finance its own operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The comparison of net assets from year to year serves to measure a government's financial position. As of June 30, 2008, assets exceeded liabilities by \$12,601,337 (net assets). For comparative purposes, the transfer of fund balance and net assets as described in Note 10 is presented as if it had occurred at the beginning of the 2007 fiscal year.

**Net Assets
Fiscal Year 2007-2008**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current and other assets	\$ 3,022,929	\$ 3,112,490	\$ 1,847,370	\$ 724,363	\$ 4,870,299	\$ 3,836,853
Capital assets	<u>1,163,015</u>	<u>2,208,983</u>	<u>9,739,427</u>	<u>10,128,045</u>	<u>10,902,442</u>	<u>12,337,028</u>
Total assets	<u>4,185,944</u>	<u>5,321,473</u>	<u>11,586,797</u>	<u>10,852,408</u>	<u>15,772,741</u>	<u>16,173,881</u>
Long-term debt	14,345	16,041	3,117,009	2,960,599	3,131,354	2,976,640
Other liabilities	<u>330,650</u>	<u>436,355</u>	<u>979,274</u>	<u>159,549</u>	<u>1,309,924</u>	<u>595,904</u>
Total liabilities	<u>344,995</u>	<u>452,396</u>	<u>4,096,283</u>	<u>3,120,148</u>	<u>4,441,278</u>	<u>3,572,544</u>
Net assets:						
Invested in capital assets, net of related debt	1,113,406	2,208,983	6,638,923	7,165,236	7,752,329	9,374,219
Restricted for redevelopment activities	1,830,164	715,958	-	-	1,830,164	715,958
Unrestricted	<u>897,379</u>	<u>1,944,136</u>	<u>851,591</u>	<u>567,024</u>	<u>1,748,970</u>	<u>2,511,160</u>
Total net assets	<u>\$ 3,840,949</u>	<u>\$ 4,869,077</u>	<u>\$ 7,490,514</u>	<u>\$ 7,732,260</u>	<u>\$ 11,331,463</u>	<u>\$ 12,601,337</u>

The City's total net assets increased by \$1,269,874, or 11% over the prior year.

Net assets of the City's business-type activities increased by \$241,746 from the prior year. Additions are attributable to a combination of continued cost saving measures and increased revenues from grant revenues for capital project reimbursements.

Governmental activities experienced a \$1,028,128 increase in net assets. This year's increases are the result of infrastructure improvements including the CDBG 3rd and 4th Street and Wildwood Avenue reconstruction projects.

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

**Changes in Net Assets
Fiscal Year 2007-2008**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Total revenues	\$ 2,093,694	\$ 2,577,281	\$ 2,955,591	\$ 1,466,485	\$ 5,049,285	\$ 4,043,766
Total expenses	<u>2,103,175</u>	<u>1,536,153</u>	<u>958,315</u>	<u>1,237,739</u>	<u>3,061,490</u>	<u>2,773,892</u>
Excess (deficiency) before transfers	<u>(9,481)</u>	<u>1,041,128</u>	<u>1,997,276</u>	<u>228,746</u>	<u>1,987,795</u>	<u>1,269,874</u>
Transfers	<u>123,303</u>	<u>(13,000)</u>	<u>(123,303)</u>	<u>13,000</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>113,822</u>	<u>1,028,128</u>	<u>1,873,973</u>	<u>241,746</u>	<u>1,987,795</u>	<u>1,269,874</u>
Net assets, beginning	<u>3,727,127</u>	<u>3,840,949</u>	<u>5,616,541</u>	<u>7,490,514</u>	<u>9,343,668</u>	<u>11,331,463</u>
Net assets, ending	<u>\$ 3,840,949</u>	<u>\$ 4,869,077</u>	<u>\$ 7,490,514</u>	<u>\$ 7,732,260</u>	<u>\$ 11,331,463</u>	<u>\$ 12,601,337</u>

**Primary Government Sources of Revenue
Fiscal Year 2007-2008
Prior Year Comparison**

	<u>Revenue 2007</u>	<u>Revenue 2008</u>	<u>Variance</u>	<u>% Change</u>
Governmental Activities				
Program revenues:				
Charges for services	\$ 1,068,371	\$ 741,112	\$ (327,259)	(31)%
Grants - operating	474,181	743,898	269,717	57 %
Grants - capital	103,270	624,888	521,618	505 %
General revenues:				
Taxes	373,407	426,305	52,898	14 %
Interest and use of property	74,465	36,516	(37,949)	(51)%
Miscellaneous	<u>-</u>	<u>4,562</u>	<u>4,562</u>	<u>- %</u>
Total governmental revenues	<u>2,093,694</u>	<u>2,577,281</u>	<u>483,587</u>	<u>23 %</u>
Business-type Activities				
Charges for services	1,219,438	1,411,891	192,453	16 %
Grants - operating	-	47,679	47,679	- %
Grants - capital	1,730,349	-	(1,730,349)	(100)%
Interest and use of property	<u>5,804</u>	<u>6,915</u>	<u>1,111</u>	<u>19 %</u>
Total business-type revenues	<u>2,955,591</u>	<u>1,466,485</u>	<u>(1,489,106)</u>	<u>(50)%</u>
Total Citywide revenues	<u>\$ 5,049,285</u>	<u>\$ 4,043,766</u>	<u>\$ (1,005,519)</u>	<u>(20)%</u>

As the statement of activity shows, the three primary revenue sources for 2007-08 are charges for services (53%), operating grants and contributions, (20%), and capital grants (15%).

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Dramatic variances are common when comparing revenues from year to year as a result of fluctuating grant and special program revenues. Highways and Streets revenues increased by 1659% as a result of a one time street improvement allocation from the State utilized to restore the City's gateway, Wildwood Avenue.

Housing and Community Development revenues increased by 282% due to increased Community Development Block Grant (CDBG) program activity and corresponding grant reimbursement.

Miscellaneous revenues were unexpected recycling reimbursements the City received during the year.

This year's Public Services revenues were down significantly signaling the end of the construction phase on the City's four-year, \$8.72 million dollar, Water Infrastructure Project. This year the City completed the infrastructure construction, and during the next fiscal year the project will be closed and the final retention and grant reimbursements will be received.

General Government revenues were reduced by 67% which was caused by the City's ended contract work with the Pacific Lumber Company on the joint annexation proposal. During the prior fiscal year the City experienced significant General Government revenue increases from the annexation expense reimbursement received from Palco for expenses incurred by the City while analyzing the Rio Dell Scotia annexation proposals. The end of the analyses resulted in General Government revenues returning to a figure that lies within the normal range compared to years prior the the annexation proposal.

**Primary Government Expenses
Fiscal Year 2007-2008
Prior Year Comparison**

	<u>Expenses 2007</u>	<u>Expenses 2008</u>	<u>Variance</u>	<u>% Change</u>
Governmental Activities				
General government	\$ 1,430,150	\$ 738,696	\$ (691,454)	(48)%
Public safety	219,033	101,252	(117,781)	(54)%
Highways and streets	73,264	202,063	128,799	176 %
Housing and community development	297,833	449,873	152,040	51 %
Public services	<u>82,895</u>	<u>44,269</u>	<u>(38,626)</u>	<u>(47)%</u>
Total	<u>2,103,175</u>	<u>1,536,153</u>	<u>(567,022)</u>	<u>(27)%</u>
Business-type Activities				
Sewer	390,765	538,061	147,296	38 %
Water	<u>567,550</u>	<u>699,678</u>	<u>132,128</u>	<u>23 %</u>
Total	<u>958,315</u>	<u>1,237,739</u>	<u>279,424</u>	<u>29 %</u>
Total Citywide expenses	<u>\$ 3,061,490</u>	<u>\$ 2,773,892</u>	<u>\$ (287,598)</u>	<u>(9)%</u>

During the 2007-08 fiscal year total citywide expenses decreased by a moderate 9%. Although the overall decrease was modest, several of the City's governmental activities experienced significant variances when compared to the previous year.

Highways and Streets expenses increased by 176% as a result of the commencement of the City's Wildwood Avenue Gateway infrastructure rehabilitation project.

CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Sewer expenses also increased as the City continued to fund its Draft Facilities Plan and Environmental Impact Report (EIR) in preparation for the City's sewer effluent disposal and facility rehabilitation project. Sewer expenses increased by 38% in comparison to the prior year as a result of the increased activities.

Public Safety expenses decreased by 54%, or \$117,781. During the prior fiscal year the City made full payment on a lawsuit settled in 1992 which resulted in a one year increase in Public Safety expenses, as well as the subsequent decrease currently noted (2007-08).

Housing and Community Development expenses increased by \$152,040, or 51% from the prior year due to increased community participation in and loans issued from the City's housing rehabilitation program funded by CDBG. The increased CDBG activity has prompted the City to seek out additional funding to address the need in our community. During the year the City submitted an application for additional funding through the HOME program which may allow the City to continuously increase program activities in the years to come.

Financial Analysis of the City's Funds

The City's governmental funds reported a combined fund balance of about \$1.5 million, roughly a \$284,000 decrease in comparison to the prior year.

The General Fund's fund balance remains relatively stable with a decrease in unreserved fund balance of 3.9%, or about \$22,000.

The CDBG Fund's fund balance decreased by 43% resulting in an ending fund balance of \$570,502. Two factors have impacted the CDBG fund balance: (1) the commencement of the CDBG funded 3rd and 4th Street rehabilitation project, and (2) the increase in CDBG Housing Rehabilitation program.

During the 2007-08 year, the City's State Transportation Improvement Fund (STIP) made its way in to the major governmental fund category as a result of the activity in the Wildwood Avenue Gateway rehabilitation project. During the year the City began the \$656,000 reconstruction project which has increased the fund activity and fund balance by \$78,773.

Other governmental funds combined fund balance increased by 44% or \$97,714. Several non-major funds have been closed such as Winter Storm Damage or transferred as discussed in note 10 to the financial statements, which resulted in the elimination of fund deficits.

The changes that have occurred within the Sewer Fund this year are a reflection of the continuation of the the Sewer Effluent Disposal and Facilities Rehabilitation Project. Total current assets have been reduced as a result of the City receiving last year's grants receivable. The funds received were then utilized to finance construction of these projects, thereby increasing long- term assets by 39%.

General Fund Budgetary Highlights

Over the course of the year, general fund revenues exceeded initial estimates by 8% as a result of increased property taxes, as well as increased activity within the City, documented by increases in sales and occupancy taxes, and licenses and permits fees. Franchise fees were also increased again this year as corresponding rates were adjusted.

Expenditures were 11% less than budgeted, resulting in excess revenues over expenditures to be \$150,115 more than expected. However, as a result of the closure of inactive funds including the Winter Storm Damage Fund, transfers out totaled \$69,200 which resulted in a total decrease in fund balance of \$22,943, significantly less than the anticipated reduction of \$103,858.

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Capital Assets

**Capital Assets
Fiscal Year 2007-2008
Prior Year Comparison**

	<u>Capital Assets 2007</u>	<u>Capital Assets 2008</u>	<u>Variance</u>	<u>% Change</u>
Governmental Activities				
(Less accumulated depreciation)				
Land	\$ 378,885	\$ 378,885	\$ -	- %
Construction in progress	78,778	1,144,099	1,065,321	1,352 %
Buildings and improvements	-	-	-	- %
Equipment	62,265	61,866	(399)	(1)%
Vehicles	34,418	28,687	(5,731)	(17)%
Streets and roads	452,920	443,074	(9,846)	(2)%
Infrastructure	<u>155,749</u>	<u>152,372</u>	<u>(3,377)</u>	<u>(2)%</u>
Total	<u>\$ 1,163,015</u>	<u>\$ 2,208,983</u>	<u>\$ 1,045,968</u>	<u>90 %</u>
Business-type Activities				
(Less accumulated depreciation)				
Land	\$ 252,715	\$ 252,715	\$ -	- %
Construction in progress	8,874,025	9,358,819	484,794	5 %
Buildings and improvements	49,059	44,756	(4,303)	(9)%
Equipment	293,402	218,716	(74,686)	(25)%
Vehicles	9,036	4,322	(4,714)	(52)%
Infrastructure	<u>261,190</u>	<u>248,717</u>	<u>(12,473)</u>	<u>(5)%</u>
Total	<u>\$ 9,739,427</u>	<u>\$ 10,128,045</u>	<u>\$ 388,618</u>	<u>4 %</u>

The City experienced the following changes within its capital assets during the 2007-2008 fiscal-year:

Governmental Activities:

- Construction in progress increased by over 1300% this year as the 3rd and 4th Street and Wildwood Avenue Reconstruction Projects began.
- The police department outfitted their alternative patrol vehicle purchased during the prior year.
- The police department purchased new radios and installed a new document processing station as part of the communications systems update.
- The City installed a new server to add increased data storage and increase security.

Business-Type Activities:

- They City added an automated chlorinated sulfur dioxide system to the wastewater treatment plant. The upgrades will reduce future sewer operations expenses.
- Construction in progress increased by 5% from continued construction of the City's Sewer Effluent Disposal and Facilities project.

**CITY OF RIO DELL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Long-Term Liabilities

Long-Term Liabilities Fiscal Year 2007-2008 Prior Year Comparison				
	Long-Term Liabilities 2007	Long-Term Liabilities 2008	Variance	% Change
Governmental Activities				
Compensated absences	16,301	18,228	1,927	12 %
Total	\$ 16,301	\$ 18,228	\$ 1,927	12 %
Business-type Activities				
DHS Infiltration Gallery Loan	\$ 2,720,000	\$ 2,720,000	\$ -	- %
FMHA Emergency Drought Relief Loan	66,000	-	(66,000)	(100)
FMHA Sewer Assessment Bonds	260,000	240,000	(20,000)	(8)%
State of California DWR Loan	96,496	-	(96,496)	(100)%
Compensated absences	18,755	23,408	4,653	25 %
Total	\$ 3,161,251	\$ 2,983,408	\$ (177,843)	(6)%

The City made full and early payment of both the FMHA and DWR loans during the year.

Significant Economic Factors and Next Years Budget and Rates

With the National Economy in an official recession, times will continue to be difficult for local municipalities. In addition to stifling building permits, diminishing property values and property taxes, and reduced consumer spending, the City is now in jeopardy of potential losses of state allocations as a result of state deficits and budgetary difficulties.

Despite hard times, City Council and staff have worked extensively to minimize the economical effects of the economy on City operations, and the services provided to the community. To date the City has accumulated healthy reserve balances to assist the City in financing daily operations in the event of declining annual revenues, and for emergency purposes. The City has also decreased long-term debt significantly over the past two years, and most recently issued early payoffs on two Water Fund notes. The City has also re-evaluated many service fees to ensure that the City is adequately funding operations both now, and for the future. It is our hope that long-term planning and strategic management will reduce the impacts on the quality of services, and quality of life for Rio Dell residents.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Rio Dell Finance Department at 675 Wildwood Ave, Rio Dell, California 95562, (707)-764-3532, or finance1@riodellcity.com.

CITY OF RIO DELL
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments (Note 2)	\$ 1,310,080	\$ -	\$ 1,310,080
Accounts and Grants Receivable	381,785	724,544	1,106,329
Interest Receivable	2,995	1,865	4,860
Internal Balances	242,046	(242,046)	-
Notes Receivable (Note 5)	1,175,584	-	1,175,584
Assessments Receivable	-	240,000	240,000
Capital Assets, net (Note 3)	<u>2,208,983</u>	<u>10,128,045</u>	<u>12,337,028</u>
TOTAL ASSETS	<u>5,321,473</u>	<u>10,852,408</u>	<u>16,173,881</u>
 <u>LIABILITIES</u>			
Accounts Payable	406,913	112,139	519,052
Accrued Expenses	27,255	-	27,255
Customer Deposits	-	24,601	24,601
Accrued Compensated Absences (Note 7)			
Due within one year	2,187	2,809	4,996
Due in more than one year	16,041	20,599	36,640
Long-Term Liabilities (Note 7)			
Due within one year	-	20,000	20,000
Due in more than one year	-	2,940,000	2,940,000
TOTAL LIABILITIES	<u>452,396</u>	<u>3,120,148</u>	<u>3,572,544</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	2,208,983	7,165,236	9,374,219
Restricted for redevelopment activities	715,958	-	715,958
Unrestricted	<u>1,944,136</u>	<u>567,024</u>	<u>2,511,160</u>
TOTAL NET ASSETS	<u>\$ 4,869,077</u>	<u>\$ 7,732,260</u>	<u>\$ 12,601,337</u>

CITY OF RIO DELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 738,696	\$ 296,328	\$ -	\$ 29,999	\$ (412,369)	\$ -	\$ (412,369)
Public safety	101,252	14,922	128,157	-	41,827	-	41,827
Highways and streets	202,063	14,661	-	594,889	407,487	-	407,487
Housing and community development	449,873	315,407	499,432	-	364,966	-	364,966
Public Services	<u>44,269</u>	<u>99,794</u>	<u>116,309</u>	<u>-</u>	<u>171,834</u>	<u>-</u>	<u>171,834</u>
Total government activities	<u>1,536,153</u>	<u>741,112</u>	<u>743,898</u>	<u>624,888</u>	<u>573,745</u>	<u>-</u>	<u>573,745</u>
Business-type activities:							
Sewer	538,061	765,145	-	-	-	227,084	227,084
Water	<u>699,678</u>	<u>646,746</u>	<u>47,679</u>	<u>-</u>	<u>-</u>	<u>(5,253)</u>	<u>(5,253)</u>
Total business-type activities	<u>1,237,739</u>	<u>1,411,891</u>	<u>47,679</u>	<u>-</u>	<u>-</u>	<u>221,831</u>	<u>221,831</u>
Total primary government	<u>\$ 2,773,892</u>	<u>\$ 2,153,003</u>	<u>\$ 791,577</u>	<u>\$ 624,888</u>	<u>\$ 573,745</u>	<u>\$ 221,831</u>	<u>\$ 795,576</u>
General revenues:							
Taxes:							
Property					\$ 113,753	\$ -	\$ 113,753
Sales					123,679	-	123,679
Occupancy					13,008	-	13,008
Use					34	-	34
Gas					175,831	-	175,831
Interest and use of property					36,516	6,915	43,431
Miscellaneous					4,562	-	4,562
Transfers					<u>(13,000)</u>	<u>13,000</u>	<u>-</u>
Total General Revenues and transfers					<u>454,383</u>	<u>19,915</u>	<u>474,298</u>
Change in Net Assets					<u>1,028,128</u>	<u>241,746</u>	<u>1,269,874</u>
NET ASSETS, JULY 1, 2007					<u>1,012,815</u>	<u>10,160,905</u>	<u>11,173,720</u>
Prior Period Restatement (Note 12)					157,743	-	157,743
Net Asset Transfer (Note 10)					<u>2,670,391</u>	<u>(2,670,391)</u>	<u>-</u>
NET ASSETS, RESTATED JULY 1, 2007					<u>3,840,949</u>	<u>7,490,514</u>	<u>11,331,463</u>
NET ASSETS, JUNE 30, 2008					<u>\$ 4,869,077</u>	<u>\$ 7,732,260</u>	<u>\$ 12,601,337</u>

See accompanying notes to the basic financial statements.

**CITY OF RIO DELL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General Fund</u>	<u>CDBG</u>	<u>Street & Transportation Improvement Program</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>ASSETS</u>					
Cash and Investments	\$ 219,678	\$ 715,958	\$ 56,511	\$ 317,933	\$ 1,310,080
Accounts Receivable	148,847	211,933	2,103	18,902	381,785
Interest Receivable	1,657	161	181	996	2,995
Due From Other Funds	245,162	-	-	-	245,162
Notes Receivable	-	1,175,584	-	-	1,175,584
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 615,344	\$ 2,103,636	\$ 58,795	\$ 337,831	\$ 3,115,606
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts Payable	\$ 31,884	\$ 358,750	\$ -	\$ 16,279	\$ 406,913
Due to Other Funds	-	-	-	3,116	3,116
Accrued Expenses	27,255	-	-	-	27,255
Deferred Revenue	-	1,174,384	-	-	1,174,384
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	59,139	1,533,134	-	19,395	1,611,668
FUND BALANCES					
Fund balances, unreserved	<u>556,205</u>	<u>570,502</u>	<u>58,795</u>	<u>318,436</u>	<u>1,503,938</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 615,344	\$ 2,103,636	\$ 58,795	\$ 337,831	\$ 3,115,606

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, 2008

Fund balance - total governmental funds	\$ 1,503,938
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$673,410	2,208,983
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	1,174,384
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Compensated Absences	<u>(18,228)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,869,077</u>

Draft

CITY OF RIO DELL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>CDBG</u>	<u>Street & Transportation Improvement Program</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<u>REVENUES</u>					
Taxes					
Property	\$ 113,753	\$ -	\$ -	\$ -	\$ 113,753
Sales	123,679	-	-	-	123,679
Occupancy	13,008	-	-	-	13,008
Use	34	-	-	-	34
Gas	-	-	-	175,831	175,831
Intergovernmental	51,316	499,432	594,889	223,149	1,368,786
Licenses, permits, and franchise fees	452,745	-	-	19,493	472,238
Interest and use of property	8,643	22,519	295	5,059	36,516
Miscellaneous	<u>3,607</u>	<u>-</u>	<u>-</u>	<u>955</u>	<u>4,562</u>
Total Revenues	<u>766,785</u>	<u>521,951</u>	<u>595,184</u>	<u>424,487</u>	<u>2,308,407</u>
<u>EXPENDITURES</u>					
Current operations					
General government	657,938	5,828	-	66,238	730,004
Public safety	2,525	-	-	93,846	96,371
Highways and streets	-	-	-	191,329	191,329
Housing and community development	-	441,374	-	6,420	447,794
Public services	68	-	-	11,062	11,130
Capital outlay	<u>59,997</u>	<u>513,080</u>	<u>516,411</u>	<u>14,078</u>	<u>1,103,566</u>
Total Expenditures	<u>720,528</u>	<u>960,282</u>	<u>516,411</u>	<u>382,973</u>	<u>2,580,194</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>46,257</u>	<u>(438,331)</u>	<u>78,773</u>	<u>41,514</u>	<u>(271,787)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Operating transfers in	-	-	-	56,273	56,273
Operating transfers out	<u>(69,200)</u>	<u>-</u>	<u>-</u>	<u>(73)</u>	<u>(69,273)</u>
Total Other Financing Sources (Uses)	<u>(69,200)</u>	<u>-</u>	<u>-</u>	<u>56,200</u>	<u>(13,000)</u>
Net Change in Fund Balance	<u>(22,943)</u>	<u>(438,331)</u>	<u>78,773</u>	<u>97,714</u>	<u>(284,787)</u>
FUND BALANCE, JULY 1, 2007	<u>579,148</u>	<u>924,654</u>	<u>(19,978)</u>	<u>196,767</u>	<u>1,680,591</u>
FUND BALANCE TRANSFER (NOTE 10)	-	-	-	(49,609)	(49,609)
PRIOR PERIOD ADJUSTMENTS (NOTE 12)	<u>-</u>	<u>84,179</u>	<u>-</u>	<u>73,564</u>	<u>157,743</u>
FUND BALANCE, JULY 1, 2007 (RESTATED)	<u>579,148</u>	<u>1,008,833</u>	<u>(19,978)</u>	<u>220,722</u>	<u>1,788,725</u>
FUND BALANCE, JUNE 30, 2008	<u>\$ 556,205</u>	<u>\$ 570,502</u>	<u>\$ 58,795</u>	<u>\$ 318,436</u>	<u>\$ 1,503,938</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, 2008

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	\$	(284,787)
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		1,096,712
Depreciation expense		(50,744)
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		268,874
Compensated absences		<u>(1,927)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,028,128</u>

Draft

CITY OF RIO DELL
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Sewer Fund	Water Fund	Totals
<u>ASSETS</u>			
Current Assets			
Accounts and Grants Receivable	\$ 89,197	\$ 635,347	\$ 724,544
Interest receivable	413	1,452	1,865
Assessments Receivable, Current Portion	20,051	-	20,051
Total Current Assets	109,661	636,799	746,460
Long-Term Assets			
Assessments Receivable, Net of Current Portion	219,949	-	219,949
Capital Assets			
Construction in Progress	430,564	8,928,255	9,358,819
Land	252,715	-	252,715
Buildings & Improvements	-	129,100	129,100
Infrastructure	-	379,774	379,774
Machinery, Vehicles & Equipment	389,232	635,863	1,025,095
Less: Accumulated Depreciation	(271,863)	(745,595)	(1,017,458)
Capital Assets, net	800,648	9,327,397	10,128,045
Total Long-Term Assets	1,020,597	9,327,397	10,347,994
TOTAL ASSETS	\$ 1,130,258	\$ 9,964,196	\$ 11,094,454
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 100,670	\$ 11,469	\$ 112,139
Due to Other Funds	2,885	239,161	242,046
Customer Deposits	11,634	12,967	24,601
Current Portion of Long-Term Liabilities	21,433	1,376	22,809
Total Current Liabilities	136,622	264,973	401,595
Long-Term Liabilities			
Accrued Compensated Absences	10,511	10,088	20,599
Notes and Bonds Payable	220,000	2,720,000	2,940,000
Total Long-Term Liabilities	230,511	2,730,088	2,960,599
TOTAL LIABILITIES	367,133	2,995,061	3,362,194
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	559,215	6,606,021	7,165,236
Unrestricted	203,910	363,114	567,024
TOTAL NET ASSETS	763,125	6,969,135	7,732,260
TOTAL LIABILITIES AND NET ASSETS	\$ 1,130,258	\$ 9,964,196	\$ 11,094,454

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, 2008

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<u>OPERATING REVENUES</u>			
Sale of Water	\$ -	\$ 593,049	\$ 593,049
Service Fees	754,549	3,655	758,204
Grant Revenue	-	47,679	47,679
Connection Fees	8,050	18,900	26,950
Late Fees	-	27,453	27,453
Other Revenue	<u>2,546</u>	<u>3,689</u>	<u>6,235</u>
Total Operating Revenues	<u>765,145</u>	<u>694,425</u>	<u>1,459,570</u>
<u>OPERATING EXPENSES</u>			
Personnel	234,820	257,659	492,479
Insurance	13,529	21,388	34,917
Utilities	35,173	52,480	87,653
Maintenance and Operations	193,610	219,899	413,509
Depreciation	<u>47,929</u>	<u>142,225</u>	<u>190,154</u>
Total Operating Expenses	<u>525,061</u>	<u>693,651</u>	<u>1,218,712</u>
Operating Income/(Loss)	<u>240,084</u>	<u>774</u>	<u>240,858</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Transfers in	13,000	-	13,000
Interest income	1,578	5,337	6,915
Interest expense	<u>(13,000)</u>	<u>(6,027)</u>	<u>(19,027)</u>
Total Non-Operating Revenues (Expenses)	<u>1,578</u>	<u>(690)</u>	<u>888</u>
Change in Net Assets	<u>241,662</u>	<u>84</u>	<u>241,746</u>
NET ASSETS, JULY 1, 2007	<u>521,463</u>	<u>9,639,442</u>	<u>10,160,905</u>
TRANSFER AND CONVERSION OF NET ASSETS FROM GOVERNMENTAL TYPE FUNDS (NOTE 10)	<u>-</u>	<u>(2,670,391)</u>	<u>(2,670,391)</u>
NET ASSETS, JULY 1, 2007 RESTATED	<u>521,463</u>	<u>6,969,051</u>	<u>7,490,514</u>
NET ASSETS, JUNE 30, 2008	<u>\$ 763,125</u>	<u>\$ 6,969,135</u>	<u>\$ 7,732,260</u>

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Business-type Activities</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$ 869,947	\$ 780,836	\$ 1,650,783
Cash received from governments	-	47,679	47,679
Cash paid to suppliers	(206,561)	(313,247)	(519,808)
Cash paid to employees	(229,887)	(257,939)	(487,826)
Net Cash Provided by Operating Activities	433,499	257,329	690,828
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Cash received from other funds	13,000	63,739	76,739
Cash paid to other funds	(60,855)	(542,250)	(603,105)
Net Cash Provided (Used) for Noncapital Financing Activities	(47,855)	(478,511)	(526,366)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition of fixed assets	(353,809)	(224,962)	(578,771)
Principal paid on debt	(20,000)	(162,496)	(182,496)
Interest payments on debt	(13,000)	(6,025)	(19,025)
Net Cash Used for Capital and Related Financing Activities	(386,809)	(393,483)	(780,292)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest on cash and investments	1,165	7,806	8,971
Net Cash Provided by Investing Activities	1,165	7,806	8,971
Net Increase (Decrease) in Cash and Cash Equivalents	-	(606,859)	(606,859)
CASH AND CASH EQUIVALENTS JULY 1, 2007	-	606,859	606,859
CASH AND CASH EQUIVALENTS JUNE 30, 2008	\$ -	\$ -	\$ -

See accompanying notes to the basic financial statements.

CITY OF RIO DELL
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
JUNE 30, 2008

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

	Sewer	Water	Totals
Operating Income	\$ 240,084	\$ 774	\$ 240,858
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	47,928	142,225	190,153
Changes in assets and liabilities			
(Increase) Decrease in accounts and grants receivable	73,785	142,517	216,302
(Increase) Decrease in assessments receivable	20,000	-	20,000
(Increase) Decrease in prepaid expenses	13,362	22,382	35,744
Increase (Decrease) in accounts payable and accrued expenses	22,389	(41,863)	(19,474)
Increase (Decrease) in compensated absences	4,933	(280)	4,653
Increase (Decrease) in deposits payable	11,018	(8,426)	2,592
Net Cash Provided by Operating Activities	\$ 433,499	\$ 257,329	\$ 690,828

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CITY OF RIO DELL
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Current Assets	
Cash (Note 2)	\$ 3,920
Interest Receivable	<u>12</u>
Total Assets	<u>\$ 3,932</u>
LIABILITIES	
Current Liabilities	
Deposits in Trust	<u>3,932</u>
Total Liabilities	<u>\$ 3,932</u>

Draft

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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 the financial statements.

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.

Joint Powers Authorities

Also excluded from the reporting entity were the following joint powers authorities 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, 2008, the City's share of operating cost was \$28,217 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.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HMRA is governed by a board of directors comprised of 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 of Eureka 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.

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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Nonmajor funds are combined in a single column in the fund financial statements.

The City reported the following major governmental funds in the accompanying financial statements:

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.

Street & Transportation Improvement Program (STIP) - The STIP Fund is used to account for the Street & Transportation Improvement Program grant funding.

The City reported the following major proprietary funds in the accompanying financial statements:

Sewer - The Sewer fund is used to account for the operation and maintenance of the City's wastewater collection system and treatment facility.

Water - The Water fund is used to account for the operation and maintenance of the City's water distribution system.

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)

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type 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. Governmental capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from governmental long-term liabilities and acquisitions under capital leases are reported as other financing sources.

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.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end.

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, 2008 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, 2008, 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, 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, 2008, 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 statements, 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.

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	30 years
Improvements	30 years
Equipment	7 years
Vehicles	7 years
Infrastructure	50 years
Roads	50 years

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, which will be paid to employees upon separation from the City. Sick leave is accrued and paid out upon separation from the City to those employees with at least 5 years of service. Sick leave accrues based on a percentage of the employee's term. 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. Long Term Liabilities

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term liabilities, and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

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

J. Interfund Transactions

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

1. Interfund services provided and used - 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. 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, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. 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 a 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.

M. 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.

N. Operating Revenues

Operating revenues for proprietary funds are those that result from providing services and producing and delivering

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

goods and/or services. It also includes all revenue not related to capital and related financing, noncapital financing or investing activities.

O. 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.

P. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Governmental activities	\$	1,310,080
Business-type activities		-
Fiduciary activities		<u>3,920</u>
 Total cash and investments	 \$	 <u><u>1,314,000</u></u>

Cash and investments are carried at fair value as of June 30, 2008 and consist of the following:

Investments	\$	973,959
Cash with county		13,861
Deposits with financial institutions		326,030
Cash on hand		<u>150</u>
 Total cash and investments	 \$	 <u><u>1,314,000</u></u>

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Authorized Investments of the City

The City does not have a formal investment policy but elects to follow the general provisions of the California Government Code. The table below identifies the investment types that are authorized by the general provisions of the California Government Code. This table does not address investments of debt issuances held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Repurchase Agreements	1 year	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper (Minimum rating of "A" or higher)	270 days	25%	10%
Medium-term Corporate Notes (Minimum rating of "AA" or higher)	5 years	30%	None
Negotiable Certificates of Deposit issued in California	5 years	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Insured savings account or money market account	N/A	None	None
Mutual Funds	N/A	20%	10%

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity as of June 30, 2008:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Cash in investment pools	\$ 610,810	\$ -	\$ 610,810
Money market funds	<u>363,149</u>	<u>-</u>	<u>363,149</u>
	<u>\$ 973,959</u>	<u>\$ -</u>	<u>\$ 973,959</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Minimum Legal Rating	Rating as of Fiscal Year End S&P	Moody's	N/A
State Investment Pool (LAIF)	\$ 610,810	N/A			Not rated
Money Market Funds	\$ 363,149	N/A			Not rated

Concentration of Credit Risk

The City complies with the limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The City holds no investments in any one issuer (other than U.S. Treasury securities, external investment pools and mutual funds) that represent 5% or more of total City investment.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, the carrying amount of the City's deposits was \$326,030 and bank balances were \$465,167 of which \$100,000 was insured.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in these pools are reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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, 2008

NOTE 3: CAPITAL ASSETS

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 378,885	\$ -	\$ -	\$ 378,885
Construction-in-progress	<u>78,778</u>	<u>1,065,321</u>	<u>-</u>	<u>1,144,099</u>
Total capital assets not being depreciated	<u>457,663</u>	<u>1,065,321</u>	<u>-</u>	<u>1,522,984</u>
Capital assets being depreciated				
Buildings and improvements	79,833	-	-	79,833
Equipment	455,203	28,306	-	483,509
Vehicles	131,838	3,085	-	134,923
Streets and roads	492,304	-	-	492,304
Infrastructure	<u>168,840</u>	<u>-</u>	<u>-</u>	<u>168,840</u>
Total assets being depreciated	<u>1,328,018</u>	<u>31,391</u>	<u>-</u>	<u>1,359,409</u>
Less accumulated depreciation				
Buildings and improvements	(79,833)	-	-	(79,833)
Equipment	(392,938)	(28,705)	-	(421,643)
Vehicles	(97,420)	(8,816)	-	(106,236)
Streets and roads	(39,384)	(9,846)	-	(49,230)
Infrastructure	<u>(13,091)</u>	<u>(3,377)</u>	<u>-</u>	<u>(16,468)</u>
Total accumulated depreciation	<u>(622,666)</u>	<u>(50,744)</u>	<u>-</u>	<u>(673,410)</u>
Governmental activities capital assets, net	<u>\$ 1,163,015</u>	<u>\$ 1,045,968</u>	<u>\$ -</u>	<u>\$ 2,208,983</u>

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

Governmental Activities:	
General government	\$ 3,377
Public safety	4,434
Highways and streets	9,846
Public Services	<u>33,087</u>
Total governmental activities depreciation expense	<u>\$ 50,744</u>

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3: CAPITAL ASSETS (Continued)

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2008</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 252,715	\$ -	\$ -	\$ 252,715
Construction in progress	<u>8,874,025</u>	<u>484,794</u>	<u>-</u>	<u>9,358,819</u>
Total capital assets not being depreciated	<u>9,126,740</u>	<u>484,794</u>	<u>-</u>	<u>9,611,534</u>
Capital assets being depreciated				
Infrastructure	379,774	-	-	379,774
Buildings and improvements	129,100	-	-	129,100
Equipment	903,618	93,977	-	997,595
Vehicles	<u>27,500</u>	<u>-</u>	<u>-</u>	<u>27,500</u>
Total assets being depreciated	<u>1,439,992</u>	<u>93,977</u>	<u>-</u>	<u>1,533,969</u>
Less accumulated depreciation				
Infrastructure	(118,584)	(12,473)	-	(131,057)
Buildings and improvements	(80,041)	(4,303)	-	(84,344)
Equipment	(610,216)	(168,663)	-	(778,879)
Vehicles	<u>(18,464)</u>	<u>(4,714)</u>	<u>-</u>	<u>(23,178)</u>
Total accumulated depreciation	<u>(827,305)</u>	<u>(190,153)</u>	<u>-</u>	<u>(1,017,458)</u>
Business-type capital assets, net	<u>\$ 9,739,427</u>	<u>\$ 388,618</u>	<u>\$ -</u>	<u>\$ 10,128,045</u>

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, 2008, the City had \$715,958 in cash deposits set aside for this purpose.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008, there was \$1,104,029 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, 2008, there was \$71,555 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, 2008, were as follows:

Transfer from the General Fund to the Winter Storm Damage Fund to close the Winter Storm Damage Fund	\$ 56,200
Transfer from the General Fund to the Sewer Fund to pay interest expense related to the FMHA Special Assessment Bonds	13,000
Transfer from the Gas Tax Fund to the TDA Fund to cover expenses	<u>73</u>
Total Interfund Transfers	\$ <u>69,273</u>

NOTE 7: 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, 2008:

	Balance July 1, 2007	Additions	Retirement	Balance June 30, 2008	Current Portion
Compensated Absences	\$ <u>16,301</u>	\$ <u>1,927</u>	\$ <u>-</u>	\$ <u>18,228</u>	\$ <u>2,187</u>
Governmental Activities Long-Term Liabilities	\$ <u>16,301</u>	\$ <u>1,927</u>	\$ <u>-</u>	\$ <u>18,228</u>	\$ <u>2,187</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, 2008

NOTE 7: 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, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
Notes payable:					
DHS Infiltration Gallery Loan	\$ 2,720,000	\$ -	\$ -	\$ 2,720,000	\$ -
FMHA Emergency Drought Relief Loan	66,000	-	(66,000)	-	-
FMHA Special Assessment Bonds	260,000	-	(20,000)	240,000	20,000
State of California Department of Water Resources	<u>96,496</u>	<u>-</u>	<u>(96,496)</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>3,142,496</u>	<u>-</u>	<u>(182,496)</u>	<u>2,960,000</u>	<u>20,000</u>
Other liabilities:					
Compensated Absences	<u>18,755</u>	<u>4,653</u>	<u>-</u>	<u>23,408</u>	<u>2,809</u>
Business-type Activities Long-term Liabilities	<u>\$ 3,161,251</u>	<u>\$ 4,653</u>	<u>\$ (182,496)</u>	<u>\$ 2,983,408</u>	<u>\$ 22,809</u>

Prior to the year ended June 30, 2008, the DHS Infiltration Gallery Loan was accounted for as a Governmental Activity. See Note 10 for additional information.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7: LONG TERM LIABILITIES (Continued)

Notes Payable:

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 were 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, 2008 the balance of the note was \$2,720,000.

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

Year Ending June 30	Principal
2010	\$ 90,666
2011	90,666
2012	90,666
2013	90,666
2014 - 2018	453,330
2019 - 2023	453,330
2024 - 2028	453,330
2029 - 2033	453,330
2034 - 2038	453,330
2039	90,686
Total	\$ 2,720,000

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 loan was paid in full during the year ended June 30, 2008.

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 \$20,000. The bonds mature in 2018.

The annual requirements to amortize the note are as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 20,000	\$ 12,000	\$ 32,000
2010	20,000	11,000	31,000
2011	20,000	10,000	30,000
2012	20,000	9,000	29,000
2013	25,000	8,000	33,000
2014 - 2018	135,000	22,500	157,500
Total	\$ 240,000	\$ 72,500	\$ 312,500

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7: LONG TERM LIABILITIES (Continued)

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 was paid in full during the year ended June 30, 2008.

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.

NOTE 8: 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, 2008, the following contributions were made to the plan:

Direct contributions to employees' benefit	\$ 61,675
Deferred contributions from employees' compensation	<u>22,834</u>
Total	<u>\$ 84,509</u>

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Small Cities Organized Risk Effort Joint Powers Authority (SCORE). SCORE provides insurance coverage for general liability, property, and workers' compensation claims under the terms of a joint-powers agreement with the City and several other governmental municipalities.

SCORE is insured up to \$500,000 per general liability and \$1,000,000 per property claim. and has purchased excess of loss insurance policies providing coverage above the self-insurance limit to a maximum of \$25,000,000. The City has a \$2,500 - \$50,000 deductible per claim for general liability, property and workers' compensation cases. When the deductible is met, the SCORE becomes responsible for payment of the excess claim.

Payment for insurance claims are recorded as expenditures in the funds in which the liabilities were incurred. In accordance with Governmental Accounting Standards Board Statement No. 10, if the third party administrator, SCORE, does not insure the loss occurrence then the City shall accrue a loss, if probably and reasonably estimable. As of June 30, 2008, the City has no uninsured occurrences. The City has not used an actuary in determining the liability reserve if needed. Because the actual claim liabilities depend on such complex factors and inflation and changes in legal doctrines and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claims are evaluated periodically to take into account recently settled claims, the frequency of claims and other economic and social factors.

CITY OF RIO DELL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10: FUND BALANCE/NET ASSET TRANSFER

During the year, management elected to account for the DWR infrastructure Project Fund and the DHS Infiltration Gallery Fund, which were accounted for as governmental funds in the prior year, as part of the Water Fund (a proprietary fund). This change required a conversion of the fund balances of these funds, which were recorded using the modified accrual basis of accounting, into net assets, recorded using the full accrual basis of accounting. To account for this change, net assets of \$2,670,391 were transferred from the net assets of governmental activities (as shown on the Statement of Activities) to the Water Fund as calculated below:

	DWR Infrastructure Project Fund	DHS Infiltration Gallery Fund	Total
Fund Balance as of June 30, 2007 to be transferred	\$ (119,044)	\$ 168,653	\$ 49,609
Less long term liabilities not recorded in governmental funds	<u>-</u>	<u>(2,720,000)</u>	<u>(2,720,000)</u>
Net assets to be transferred to Water Fund	<u>(119,044)</u>	<u>(2,551,347)</u>	<u>(2,670,391)</u>

Fund balances (as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds) decreased in the amount of \$49,609 due to this transfer.

NOTE 11: 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.

NOTE 12: PRIOR PERIOD ADJUSTMENTS

During the year it was discovered that grant receivables were understated in the prior year by \$157,743. To correct this error beginning net assets have been increased by \$157,743 and beginning governmental fund balances have been increased by \$157,743.

REQUIRED SUPPLEMENTARY INFORMATION

Draft

CITY OF RIO DELL
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes				
Property	\$ 87,150	\$ 87,150	\$ 113,753	\$ 26,603
Sales	99,000	99,000	123,679	24,679
Occupancy	12,000	12,000	13,008	1,008
Use	40	40	34	(6)
Intergovernmental	60,000	60,000	51,316	(8,684)
Licenses, permits, and franchise fees	410,550	410,550	452,745	42,195
Interest and use of property	40,000	40,000	8,643	(31,357)
Miscellaneous	-	-	3,607	3,607
<u>Total Revenues</u>	<u>708,740</u>	<u>708,740</u>	<u>766,785</u>	<u>58,045</u>
<u>EXPENDITURES</u>				
Current operations:				
General Government	747,768	747,768	657,938	89,830
Public Safety	2,525	2,525	2,525	-
Public Services	68	68	68	-
Capital outlay	62,237	62,237	59,997	2,240
<u>Total Expenditures</u>	<u>812,598</u>	<u>812,598</u>	<u>720,528</u>	<u>92,070</u>
Excess (deficiency) of revenues over expenditures	<u>(103,858)</u>	<u>(103,858)</u>	<u>46,257</u>	<u>150,115</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(69,200)	69,200
<u>Total Other Financing Sources (Uses)</u>	<u>-</u>	<u>-</u>	<u>(69,200)</u>	<u>69,200</u>
<u>Net Change in Fund Balance</u>	<u>\$ (103,858)</u>	<u>\$ (103,858)</u>	<u>(22,943)</u>	<u>\$ 80,915</u>
FUND BALANCE, JULY 1, 2007			<u>579,148</u>	
FUND BALANCE, JUNE 30, 2008			<u>\$ 556,205</u>	

CITY OF RIO DELL
CDBG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Intergovernmental	\$ 1,629,896	\$ 1,629,896	\$ 499,432	\$ (1,130,464)
Interest and use of property	-	-	22,519	22,519
Total Revenues	1,629,896	1,629,896	521,951	(1,107,945)
<u>EXPENDITURES</u>				
Current operations:				
General Government	27,510	27,510	5,828	21,682
Housing and Community Development	900,000	900,000	441,374	458,626
Capital outlay	644,500	644,500	513,080	131,420
Total Expenditures	1,572,010	1,572,010	960,282	611,728
Excess (deficiency) of revenues over expenditures	57,886	57,886	(438,331)	(496,217)
Net Change in Fund Balance	\$ 57,886	\$ 57,886	(438,331)	\$ 496,217
FUND BALANCE, JULY 1, 2007			924,654	
PRIOR PERIOD ADJUSTMENTS (NOTE 12)			84,179	
FUND BALANCE, JULY 1, 2007 (RESTATED)			1,008,833	
FUND BALANCE, JUNE 30, 2008			\$ 570,502	

CITY OF RIO DELL
STREET & TRANSPORTATION IMPROVEMENT PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Intergovernmental	\$ 651,000	\$ 651,000	\$ 594,889	\$ (56,111)
Interest and use of property	-	-	295	295
Total Revenues	<u>651,000</u>	<u>651,000</u>	<u>595,184</u>	<u>(55,816)</u>
<u>EXPENDITURES</u>				
Current operations:				
Capital outlay	<u>651,000</u>	<u>651,000</u>	<u>516,411</u>	<u>134,589</u>
Total Expenditures	<u>651,000</u>	<u>651,000</u>	<u>516,411</u>	<u>134,589</u>
Excess (deficiency) of revenues over expenditures	-	-	<u>78,773</u>	<u>78,773</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>78,773</u>	<u>\$ 78,773</u>
FUND BALANCE (DEFICIT), JULY 1, 2007			<u>(19,978)</u>	
FUND BALANCE, JUNE 30, 2008			<u>\$ 58,795</u>	

SUPPLEMENTARY INFORMATION

Draft

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

<u>ASSETS</u>	<u>Gas Tax</u>	<u>TDA</u>	<u>Traffic Safety</u>	<u>ISTEA</u>
Cash and Investments	\$ 101,363	\$ 104,602	\$ 16,064	\$ 26,462
Accounts Receivable	15,786	-	-	-
Interest Receivable	<u>348</u>	<u>343</u>	<u>51</u>	<u>51</u>
TOTAL ASSETS	<u>\$ 117,497</u>	<u>\$ 104,945</u>	<u>\$ 16,115</u>	<u>\$ 26,513</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	\$ 4,125	\$ 8,077	\$ -	\$ -
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>4,125</u>	<u>8,077</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>113,372</u>	<u>96,868</u>	<u>16,115</u>	<u>26,513</u>
TOTAL FUND BALANCES (DEFICIT)	<u>113,372</u>	<u>96,868</u>	<u>16,115</u>	<u>26,513</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 117,497</u>	<u>\$ 104,945</u>	<u>\$ 16,115</u>	<u>\$ 26,513</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Solid Waste</u>	<u>Special Law Enforcement Service</u>	<u>Local Law Enforcement Block Grant</u>	<u>Vehicle Abatement</u>
<u>ASSETS</u>				
Cash and Investments	\$ 13,234	\$ 26,900	\$ 2,870	\$ 9,296
Accounts Receivable	-	-	-	-
Interest Receivable	<u>29</u>	<u>53</u>	<u>38</u>	<u>29</u>
TOTAL ASSETS	<u>\$ 13,263</u>	<u>\$ 26,953</u>	<u>\$ 2,908</u>	<u>\$ 9,325</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	\$ 238	\$ -	\$ -	\$ -
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>238</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>13,025</u>	<u>26,953</u>	<u>2,908</u>	<u>9,325</u>
TOTAL FUND BALANCES (DEFICIT)	<u>13,025</u>	<u>26,953</u>	<u>2,908</u>	<u>9,325</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,263</u>	<u>\$ 26,953</u>	<u>\$ 2,908</u>	<u>\$ 9,325</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>California Law Enforcement Technology & Equipment Program</u>	<u>Recycling</u>	<u>Winter Storm Damage</u>	<u>Brownfield Grant EPA</u>
<u>ASSETS</u>				
Cash and Investments	\$ 441	\$ 7,812	\$ -	\$ -
Accounts Receivable	-	-	-	3,116
Interest Receivable	<u>1</u>	<u>24</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 442</u>	<u>\$ 7,836</u>	<u>\$ -</u>	<u>\$ 3,116</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	\$ -	\$ 171	\$ -	\$ 3,668
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,116</u>
TOTAL LIABILITIES	<u>-</u>	<u>171</u>	<u>-</u>	<u>6,784</u>
FUND BALANCES:				
Unreserved: Undesignated	<u>442</u>	<u>7,665</u>	<u>-</u>	<u>(3,668)</u>
TOTAL FUND BALANCES (DEFICIT)	<u>442</u>	<u>7,665</u>	<u>-</u>	<u>(3,668)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 442</u>	<u>\$ 7,836</u>	<u>\$ -</u>	<u>\$ 3,116</u>

CITY OF RIO DELL
COMBINING BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Fund 90</u>		<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments	\$ 8,889	\$	317,933
Accounts Receivable	-		18,902
Interest Receivable	<u>29</u>		<u>996</u>
TOTAL ASSETS	<u>\$ 8,918</u>	<u>\$</u>	<u>337,831</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts Payable	\$ -	\$	16,279
Due to Other Funds	<u>-</u>		<u>3,116</u>
TOTAL LIABILITIES	<u>-</u>		<u>19,395</u>
FUND BALANCES:			
Unreserved: Undesignated	<u>8,918</u>		<u>318,436</u>
TOTAL FUND BALANCES (DEFICIT)	<u>8,918</u>		<u>318,436</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,918</u>	<u>\$</u>	<u>337,831</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, 2008

	<u>Gas Tax</u>	<u>TDA</u>	<u>Traffic Safety</u>	<u>ISTEA</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ 65,683	\$ 110,148	\$ -	\$ -
Intergovernmental	-	-	-	28,149
Licenses, permits, and franchise fees	-	-	-	-
Interest and use of property	2,052	1,594	251	154
Miscellaneous	<u>424</u>	<u>531</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>68,159</u>	<u>112,273</u>	<u>251</u>	<u>28,303</u>
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	-
Public Safety	-	-	-	-
Highways and Streets	86,692	104,637	-	-
Housing and Community Development	-	-	-	-
Public Services	-	-	-	-
Capital Outlay	<u>11,244</u>	<u>2,015</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>97,936</u>	<u>106,652</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(29,777)</u>	<u>5,621</u>	<u>251</u>	<u>28,303</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	73	-	-
Transfers Out	<u>(73)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(73)</u>	<u>73</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>(29,850)</u>	<u>5,694</u>	<u>251</u>	<u>28,303</u>
FUND BALANCES (DEFICIT), JULY 1, 2007	<u>143,222</u>	<u>91,174</u>	<u>15,864</u>	<u>(1,790)</u>
FUND BALANCE TRANSFER (NOTE 10)	-	-	-	-
PRIOR PERIOD ADJUSTMENTS (NOTE 12)	-	-	-	-
FUND BALANCES (DEFICIT), JULY 1, 2007 (RESTATED)	<u>143,222</u>	<u>91,174</u>	<u>15,864</u>	<u>(1,790)</u>
FUND BALANCES (DEFICIT), JUNE 30, 2008	<u>\$ 113,372</u>	<u>\$ 96,868</u>	<u>\$ 16,115</u>	<u>\$ 26,513</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, 2008

	<u>Solid Waste</u>	<u>Special Law Enforcement Service</u>	<u>Local Law Enforcement Block Grant</u>	<u>Vehicle Abatement</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	100,008	-	-
Licenses, permits, and franchise fees	19,493	-	-	-
Interest and use of property	174	161	186	141
Miscellaneous	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>19,667</u>	<u>100,169</u>	<u>186</u>	<u>141</u>
<u>EXPENDITURES</u>				
Current				
General Government	421	-	-	-
Public Safety	-	93,846	-	-
Highways and Streets	-	-	-	-
Housing and Community Development	-	-	-	-
Public Services	10,355	-	-	-
Capital Outlay	819	-	-	-
	<u>11,595</u>	<u>93,846</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>11,595</u>	<u>93,846</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>8,072</u>	<u>6,323</u>	<u>186</u>	<u>141</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>8,072</u>	<u>6,323</u>	<u>186</u>	<u>141</u>
FUND BALANCES (DEFICIT), JULY 1, 2007	<u>4,953</u>	<u>20,630</u>	<u>2,722</u>	<u>9,184</u>
FUND BALANCE TRANSFER (NOTE 10)	-	-	-	-
PRIOR PERIOD ADJUSTMENTS (NOTE 12)	-	-	-	-
FUND BALANCES (DEFICIT), JULY 1, 2007 (RESTATED)	<u>4,953</u>	<u>20,630</u>	<u>2,722</u>	<u>9,184</u>
FUND BALANCES (DEFICIT), JUNE 30, 2008	<u>\$ 13,025</u>	<u>\$ 26,953</u>	<u>\$ 2,908</u>	<u>\$ 9,325</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, 2008

	<u>California Law Enforcement Technology & Equipment Program</u>	<u>Recycling</u>	<u>Winter Storm Damage</u>	<u>Brownfield Grant EPA</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	5,000	69,573	20,419
Licenses, permits, and franchise fees	-	-	-	-
Interest and use of property	7	200	-	-
Miscellaneous	-	-	-	-
	<u>7</u>	<u>5,200</u>	<u>69,573</u>	<u>20,419</u>
Total Revenues				
<u>EXPENDITURES</u>				
Current				
General Government	-	483	-	65,334
Public Safety	-	-	-	-
Highways and Streets	-	-	-	-
Housing and Community Development	-	10,498	(4,078)	-
Public Services	-	707	-	-
Capital Outlay	-	-	-	-
	<u>-</u>	<u>11,688</u>	<u>(4,078)</u>	<u>65,334</u>
Total Expenditures				
Excess (Deficiency) of Revenues over Expenditures	<u>7</u>	<u>(6,488)</u>	<u>73,651</u>	<u>(44,915)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	56,200	-
Transfers Out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>56,200</u>	<u>-</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	<u>7</u>	<u>(6,488)</u>	<u>129,851</u>	<u>(44,915)</u>
FUND BALANCES (DEFICIT), JULY 1, 2007	<u>435</u>	<u>14,153</u>	<u>(129,851)</u>	<u>(32,317)</u>
FUND BALANCE TRANSFER (NOTE 10)	-	-	-	-
PRIOR PERIOD ADJUSTMENTS (NOTE 12)	-	-	-	<u>73,564</u>
FUND BALANCES (DEFICIT), JULY 1, 2007 (RESTATED)	<u>435</u>	<u>14,153</u>	<u>(129,851)</u>	<u>41,247</u>
FUND BALANCES (DEFICIT), JUNE 30, 2008	<u>\$ 442</u>	<u>\$ 7,665</u>	<u>\$ -</u>	<u>\$ (3,668)</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, 2008

	<u>Fund 90</u>	<u>DWR Infrastructure Project</u>	<u>DHS Infiltration Gallery</u>	<u>Totals</u>
<u>REVENUES</u>				
Taxes				
Gas	\$ -	\$ -	\$ -	\$ 175,831
Intergovernmental	-	-	-	223,149
Licenses, permits, and franchise fees	-	-	-	19,493
Interest and use of property	139	-	-	5,059
Miscellaneous	-	-	-	955
	<u>139</u>	<u>-</u>	<u>-</u>	<u>424,487</u>
Total Revenues				
<u>EXPENDITURES</u>				
Current				
General Government	-	-	-	66,238
Public Safety	-	-	-	93,846
Highways and Streets	-	-	-	191,329
Housing and Community Development	-	-	-	6,420
Public Services	-	-	-	11,062
Capital Outlay	-	-	-	14,078
	<u>-</u>	<u>-</u>	<u>-</u>	<u>382,973</u>
Total Expenditures				
Excess (Deficiency) of Revenues over Expenditures	<u>139</u>	<u>-</u>	<u>-</u>	<u>41,514</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	-	-	56,273
Transfers Out	-	-	-	(73)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,200</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	<u>139</u>	<u>-</u>	<u>-</u>	<u>97,714</u>
FUND BALANCES (DEFICIT), JULY 1, 2007	<u>8,779</u>	<u>(119,044)</u>	<u>168,653</u>	<u>196,767</u>
FUND BALANCE TRANSFER (NOTE 10)	-	119,044	(168,653)	(49,609)
PRIOR PERIOD ADJUSTMENTS (NOTE 12)	-	-	-	73,564
FUND BALANCES (DEFICIT), JULY 1, 2007 (RESTATED)	<u>8,779</u>	<u>-</u>	<u>-</u>	<u>220,722</u>
FUND BALANCES (DEFICIT), JUNE 30, 2008	<u>\$ 8,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,436</u>

CITY OF RIO DELL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements/ Expenditures</u>
Environmental Protection Agency		
DHS Safe Drinking Water State Revolving Fund	66.468	\$ 199,510
Brownfield Assessment and Cooperative Grant	66.818	65,334
Office of Community Planning and Development, Department of Housing and Urban Development		
Community Development Block Grants	14.228	<u>960,283</u>
		<u>\$ 1,225,127</u>

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OTHER REPORTS

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

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

We have audited the accompanying basic 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 (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2008. 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 opinion on the financial statements, but not for the purpose 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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

We noted certain other matters that we reported to management of the City of Rio Dell in a separate letter dated November 1, 2008.

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

Sacramento, California
November 1, 2008

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**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

Compliance

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, 2008. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

Internal Control Over Compliance

The management of 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 the City of Rio Dell's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Rio Dell's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

be material weaknesses, as defined above.

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

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

Sacramento, California
November 1, 2008

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CITY OF RIO DELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies 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?	Yes
Major programs are as follows: 14.228 HUD - Office of Community Planning and Development, Community Development Block Grants	
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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CITY OF RIO DELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-01

Criteria

The Office of Management and Budget's Circular No. A-133 Compliance requirements (Section F. Equipment and real property management) state that a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records.

Condition

The City of Rio Dell has not performed an inventory of fixed assets in the past two fiscal years.

Possible Effects

Potential future disallowance of federal funds for equipment purchases.

Cause

No policy requiring an inventory of equipment every two years has been established.

Recommendation

The City of Rio Dell should implement a policy that requires an inventory of fixed assets in accordance with A-133 requirements.

Management's Repsonse

Management agrees with the recommendation and is in the process of planning for a physical inventory of all of the City's fixed assets.

CITY OF RIO DELL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

None reported.

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