

CITY OF REEDLEY
REEDLEY, CALIFORNIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

December 30, 2011

To the Honorable Mayor and City Council
City of Reedley, California

We have audited the accompanying general purpose financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Reedley, California as of June 30, 2011 and for the year then ended, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. The general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 December 30, 2011, on our consideration of the City of Reedley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through nine and the budgetary comparison information on pages 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reedley's financial statements. The combining and individual nonmajor fund financial statements on pages 46 and 47 and the schedule of expenditures of federal financial assistance on page 57, as required by *Office of Management and Budget Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

*Sanborn and Sanborn
Accountancy Corporation*

Certified Public Accountants

**CITY OF REEDLEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

As management of the City of Reedley, we offer readers of the City of Reedley's financial statements this narrative overview and analysis of the financial activities of the City of Reedley for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- The assets of the City of Reedley exceeded its liabilities as of June 30, 2011 by \$45,016,866. Of this amount, unrestricted net assets of \$15,033,876 may be used to meet the City's ongoing obligations to citizens and creditors. As of June 30, 2010, the assets of the City exceeded its liabilities by \$42,406,819, with unrestricted net assets totaling \$12,814,837.
- Total net assets increased by \$2,610,047 during the year ended June 30, 2011. Net assets associated with governmental activities increased by \$1,346,881 while net assets associated with business-type activities increased by \$1,263,166. For the year ended June 30, 2010, total net assets increased by \$2,615,266, with net assets associated with governmental activities increasing by \$2,288,280 and net assets associated with business-type activities increasing by \$326,986.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,350,330 a decrease of \$259,897 compared with the prior year. Of this amount, \$6,901,076 is available for spending and \$1,360,143 is restricted or otherwise designated for specific future uses. For the year ended June 30, 2010, the City's governmental funds had combined ending fund balances of \$9,612,427, with \$7,448,501 being available for spending and \$2,163,926 restricted for specific future uses. The combined ending fund balances as of June 30, 2010 represented an increase of \$575,350 over the June 30, 2009 combined ending fund balances.
- At the end of the current fiscal year, the fund balance for the general fund was \$1,331,721 or 18 percent of general fund expenditures for the year ended June 30, 2011. The general fund fund balance decreased by \$314,409 for the year ended June 30, 2011. At the end of the prior fiscal year, the fund balance of the general fund was \$1,646,130, or 21 percent of that year's general fund expenditures. The general fund fund balance decreased by \$641,028 during the year ended June 30, 2010.
- The City's total debt obligations (including post retirement benefits) decreased by \$964,385. This was mostly attributable to decreases in proprietary funds long-term obligations of \$1,028,165. During the prior year, total debt obligations increased by \$2,562,730.

Overview of the Financial Statements

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

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, community development and other charges. The major business-type activities of the City include water, sewer and solid waste disposal systems, as well as airport activities.

The government-wide financial statements include not only the City of Reedley itself (known as the primary government), but also the legally separate Reedley Redevelopment Agency, a component unit of the City. Financial information for the component unit is reported separately from the financial information presented for the primary government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balance provide reconciliations to facilitate this comparison between the two.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the general fund which is considered a major fund and three special revenue funds which are presented separately for the purpose of consistency. Data from the other nine special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its general fund and all special revenue funds. Budgetary comparison statements have been provided for the general fund and the four major special revenue funds to demonstrate compliance with the 2010/2011 budget.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains four individual enterprise funds. Information is presented separately in the proprietary statement of net assets and the proprietary statement of revenue, expense and changes in fund net assets for all four enterprise funds.

An internal service fund is used to accumulate and allocate costs internally among the City's various functions. The City uses one internal service fund to account for its fleet maintenance activities. Because this service predominantly benefits governmental rather than business-type functions, it has been included principally within governmental activities in the government-wide financial statements, but is presented separately in the proprietary funds financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The combining statements referred to earlier in connection with the nonmajor funds are presented immediately after the basic financial statements. Also included are budgetary comparisons for the major governmental funds. Finally, reports related to the City's federal financial assistance programs are presented.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2011, the City's assets exceeded liabilities by \$45,016,866. By far, the largest portion of the City's net assets (67 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedules represent a summary of the City's net assets and activities for the year ended June 30, 2011, with a comparison to the total net assets and activities for the year ended June 30, 2010:

City of Reedley's Net Assets

	Governmental Activities	Business-Type Activities	Current Year Total	Prior Year Total
Current and other assets	\$ 10,782,871	\$ 9,034,719	\$ 18,733,479	\$ 19,318,402
Capital assets and deferred charges	20,301,644	54,466,432	74,768,076	72,537,491
Total assets	31,084,515	63,501,151	93,501,555	91,855,893
Long-term liabilities	254,031	46,242,621	46,496,652	47,630,649
Other liabilities	1,431,629	1,640,519	1,988,037	1,818,425
Total liabilities	1,685,660	47,883,140	48,484,689	49,449,074
Invested in capital assets, net of related debt	20,301,644	9,673,166	29,974,810	29,591,982
Restricted		8,180	8,180	
Unrestricted	9,097,211	5,936,665	15,033,876	12,814,837
Total net assets	\$ 29,398,855	\$ 15,618,011	\$ 45,016,866	\$ 42,406,819

City of Reedley's Changes in Net Assets

	Governmental Activities	Business-Type Activities	Current Year Total	Prior Year Total
Program revenue				
Charges for services	\$ 1,642,060	\$ 9,323,514	\$ 10,965,574	\$ 11,257,047
Operating grants and contributions	5,009,819	15,151	5,024,970	4,484,865
Capital grants and contributions	2,700,894	768,831	3,469,725	3,567,250
General revenue, including transfers	2,870,770	102,220	2,972,990	3,001,742
Total revenue	12,223,543	10,209,716	22,433,259	22,310,904
Expense				
Public safety	6,058,042		6,058,042	5,993,715
Public works	2,455,940		2,455,940	2,193,956
Community services	1,226,986		1,226,986	1,040,168
Administration and finance	678,104		678,104	618,306
Community development	457,590		457,590	444,573
Sewer		3,282,777	3,282,777	3,149,822
Disposal		2,808,960	2,808,960	2,966,540
Water		2,540,516	2,540,516	2,667,305
Other business-type		314,297	314,297	621,253
Total expense	10,876,662	8,946,550	19,823,212	19,695,638
Increase in net assets	1,346,881	1,263,166	2,610,047	2,615,266
Net assets, beginning of year	28,051,974	14,354,845	42,406,819	39,791,553
Net assets, end of year	\$ 29,398,855	\$ 15,618,011	\$ 45,016,866	\$ 42,406,819

Governmental activities. Governmental activities increased the City's net assets by \$1,346,881 accounting for 52 percent of the total growth in net assets. Key elements of this increase are as follows:

- Charges for services decreased by \$758,769 during the year. This decrease was due primarily to a decline in public works and community services revenue.
- Operating grants and contributions increased by \$873,076.
- Capital grants and contributions decreased by \$491,577.
- General revenue, including transfers in/(out) increased by \$21,815.
- Expense increased by \$585,944.

Business-type activities. Business-type activities increased the City's net assets by \$1,263,166, accounting for a 48 percent increase in the City's net assets. This was due primarily to an increase in charges for services of \$467,296 and an increase in capital grants and contributions of \$394,052. Operating grants and contributions decreased by \$332,971. Business-type expenses decreased by \$458,370 while general revenue, including transfers in/(out) decreased by \$50,567. The water fund activity generated a net profit in operating income (operating revenue less operating expense) totaling \$492,929 while the sewer fund activity had an operating loss of \$215,906 in the current year.

Financial Analysis of the City's Funds

As noted earlier, the City of Reedley uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The purpose of the City's governmental fund financial statements is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, an unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$9,350,330, a decrease of \$259,897 in comparison to the prior year. Of this amount, \$6,901,076 (74 percent) was unrestricted, which is available for spending at the City's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$1,360,143) or assets that will not be converted to cash within the next twelve months (\$1,089,111).

The general fund is the City's chief operating fund. At the end of the current fiscal year, the spendable portion of the fund balance of the general fund was \$393,571 while the total fund balance was \$1,331,721. As a measure of the general fund's liquidity, it may be useful to compare both the spendable portion of the fund balance and total fund balance to total fund expenditures. Spendable portion of the fund balance represents five percent of total general fund expenditures, while total fund balance represents 18 percent of the same amount.

The fund balance of the City's general fund decreased by \$314,409 during the year ended June 30, 2011. Expenditures decreased by four percent and revenue decreased by three percent resulting in an excess of expenditures over revenue of \$740,704. There was \$426,295 transferred from other funds to the general fund.

Special revenue funds have a combined fund balance of \$8,018,609. Of that amount, \$1,087,197 is assigned to liquidate contracts and purchase orders and \$1,360,143 is restricted by external entities for various activities.

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

Unrestricted net assets of the proprietary funds were \$5,936,665 as of June 30, 2011. The total increase in the net assets of the proprietary funds was \$1,260,967 for the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The final general fund budgeted expenditures were greater than the original budgeted expenditures by \$113,778. Actual expenditures were \$95,045 greater than final budgeted expenditures. Final anticipated revenue was the same as original anticipated revenue. Actual total revenue was \$165,030 greater than the final anticipated revenue.

Capital Asset and Debt Administration

Capital assets. The City's total capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$73,710,682 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, automobiles, equipment and street lights. In addition, all sidewalks, bridges and roads within the city limits belong to the City.

Major capital asset events during the year ended June 30, 2011 included the following:

- Various airport improvements amounted to \$791,437.
- Various vehicle and equipment purchases amounted to \$560,879.
- Various infrastructure improvements amounted to \$1,771,905.

Additional information on the City's capital assets can be found in note three.

Long-term liabilities. As of June 30, 2011, the City had \$46,496,652 in outstanding long-term debt consisting of three revenue bond issues (\$18,940,000), one loan from the State of California (\$26,464,213), one loan from the Reedley Redevelopment Agency (\$390,928), three capital leases (\$447,480) and compensated absences (\$254,031). The revenue bonds are obligations of the water and sewer funds and principal payments on the bonds during the year reduced the amount owed by \$515,000. All of the capital leases are obligations of proprietary funds. Principal payments on the leases during the year reduced the amounts owed by \$59,892. There was a \$1,052,939 principal reduction in the loan payable to the State of California which is also an obligation of the sewer fund.

The City's total debt (including compensated absences and other long-term liabilities) decreased by \$964,385 during the year ended June 30, 2011, mostly attributable to the loan repayment to the State of California of \$1,052,939 for sewer plant expansion. Compensated absences payable decreased by \$4,562 during the year.

Additional information on the City's long-term liabilities can be found in note four.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2011 budget. Quarterly reports are transmitted to the City Council that provide actual information related to projections. Budgets for the fiscal year 2011 were developed, adopted and amended based upon the following assumptions and information:

- Provide for economic development and sustainability through installation of targeted public works improvements along with targeted investments, assistance and partnerships throughout the year.
- Complete the General Plan update.
- Complete Utility Master Plans for water, wastewater and storm drainage.
- Complete the Zoning and Housing Element updates.
- Issue \$8,825,000 in 2011 Tax Allocation Bonds by the Reedley Redevelopment Agency and defease the existing Redevelopment Agency Bonds. This will generate approximately \$5.3 million in new monies available for authorized redevelopment projects,
- Negotiate renewed labor contracts for memorandums of understanding that expired on June 30, 2011.
- Water rates increased by a two percent factor on June 1, 2011.
- Disposal rates will increase by a 2.47 percent CPI factor on February 1, 2012.
- The sewer rate structure was updated to accommodate an Average Winter Water Use calculation for commercial accounts and is now volumetric based for all customers except single family residential, duplexes and triplexes. Sewer rates will increase by 33 percent on February 1, 2012 and will increase by another 25 percent on October 1, 2012. An additional increase of 2.5 percent on July 1, 2013 is scheduled in order to meet debt service requirements.

Requests for Information

This financial report is designed to provide a general overview of the City of Reedley's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City of Reedley, 845 G Street, Reedley, California 93654.

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF REEDLEY
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Primary Government</u>		Totals -	Component	Totals -
	<u>Governmental</u>	<u>Business-Type</u>	Primary	Unit	Reporting
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>		<u>Entity</u>
Assets					
Cash and cash equivalents	\$ 8,598,650	\$ 8,657,099	\$ 17,255,749	\$ 8,445,415	\$ 25,701,164
Accounts receivable	1,090,721	314,271	1,404,992	1,831	1,406,823
Notes receivable				742,876	742,876
Deposit	5,000		5,000		5,000
Due from primary government	1,084,111			390,928	
Inventory	4,389	63,349	67,738		67,738
Deferred charges (net of allowance for amortization)		1,057,394	1,057,394	433,378	1,490,772
Capital assets (net of allowance for depreciation)	<u>20,301,644</u>	<u>53,409,038</u>	<u>73,710,682</u>	<u>376,102</u>	<u>74,086,784</u>
Total assets	<u>31,084,515</u>	<u>63,501,151</u>	<u>93,501,555</u>	<u>10,390,530</u>	<u>103,501,157</u>
Liabilities					
Accounts payable and accrued expense	205,152	1,122,802	1,327,954	110,560	1,438,514
Wages payable and accrued costs	323,855	140,454	464,309	4,785	469,094
Deposits		195,774	195,774		195,774
Due to primary government	902,622	181,489			
Long-term liabilities					
Due within one year		1,784,501	1,784,501	155,000	1,939,501
Due in more than one year	<u>254,031</u>	<u>44,458,120</u>	<u>44,712,151</u>	<u>8,670,000</u>	<u>52,991,223</u>
Total liabilities	<u>1,685,660</u>	<u>47,883,140</u>	<u>48,484,689</u>	<u>8,940,345</u>	<u>57,034,106</u>
Net Assets					
Invested in capital assets, net of related debt	20,301,644	9,673,166	29,974,810	376,102	30,350,912
Designated		8,180	8,180		8,180
Unrestricted/(deficit)	<u>9,097,211</u>	<u>5,936,665</u>	<u>15,033,876</u>	<u>1,074,083</u>	<u>16,107,959</u>
Total net assets/(deficit)	<u>\$ 29,398,855</u>	<u>\$ 15,618,011</u>	<u>\$ 45,016,866</u>	<u>\$ 1,450,185</u>	<u>\$ 46,467,051</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expense	Program Revenue			Net Revenue/(Expense) and Changes in Net Assets			Component Units	Total Reporting Entity
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Primary government:									
Governmental activities									
Public safety	\$ 6,058,042	\$ 230,551	\$ 3,319,860	\$ 39,253	\$ (2,468,378)	\$	\$ (2,468,378)	\$	\$ (2,468,378)
Public works	2,455,940	431,320	1,005,693	2,661,641	1,642,714		1,642,714		1,642,714
Community services	1,226,986	156,050	538,117		(532,819)		(532,819)		(532,819)
Administration and finance	678,104	585,959	19,620		(72,525)		(72,525)		(72,525)
Community development	<u>457,590</u>	<u>238,180</u>	<u>126,529</u>		<u>(92,881)</u>		<u>(92,881)</u>		<u>(92,881)</u>
Total governmental activities	<u>10,876,662</u>	<u>1,642,060</u>	<u>5,009,819</u>	<u>2,700,894</u>	<u>(1,523,889)</u>		<u>(1,523,889)</u>		<u>(1,523,889)</u>
Business-type activities									
Water	2,540,516	3,030,952	2,493			492,929	492,929		492,929
Sewer	3,282,777	3,056,706	10,165			(215,906)	(215,906)		(215,906)
Disposal	2,808,960	3,005,808	2,493			199,341	199,341		199,341
Airport	<u>314,297</u>	<u>230,048</u>		<u>768,831</u>		<u>684,582</u>	<u>684,582</u>		<u>684,582</u>
Total business-type activities	<u>8,946,550</u>	<u>9,323,514</u>	<u>15,151</u>	<u>768,831</u>		<u>1,160,946</u>	<u>1,160,946</u>		<u>1,160,946</u>
Total primary government	<u>\$ 19,823,212</u>	<u>\$ 10,965,574</u>	<u>\$ 5,024,970</u>	<u>\$ 3,469,725</u>	<u>(1,523,889)</u>	<u>1,160,946</u>	<u>(362,943)</u>		<u>(362,943)</u>
Component units	<u>\$ 2,537,990</u>	<u>\$</u>	<u>\$ 370,185</u>	<u>\$</u>				<u>(2,167,805)</u>	<u>(2,167,805)</u>
Change in net assets before general revenue and transfers					<u>(1,523,889)</u>	<u>1,160,946</u>	<u>(362,943)</u>	<u>(2,167,805)</u>	<u>(2,530,748)</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expense	Program Revenue			Net Revenue/(Expense) and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	Total Reporting Entity
					Governmental Activities	Business-Type Activities	Total		
Change in net assets before general revenue and transfers					\$ (1,523,889)	\$ 1,160,946	\$ (362,943)	\$ (2,167,805)	\$ (2,530,748)
General revenue									
	Property taxes, levied for general purposes				978,068	7,513	985,581		985,581
	Property taxes, levied for debt service							2,613,192	2,613,192
	Sales taxes				1,345,645		1,345,645		1,345,645
	Franchise and other taxes				380,110		380,110		380,110
	Insurance refunds and other				109,137		109,137		109,137
	Unrestricted investment earnings				60,009	92,508	152,517	59,470	211,987
	Transfers in/(out) - net				(2,199)	2,199			
	Total general revenue and transfers				2,870,770	102,220	2,972,990	2,672,662	5,645,652
	Change in net assets				1,346,881	1,263,166	2,610,047	504,857	3,114,904
	Net assets, beginning of year				28,051,974	14,354,845	42,406,819	945,328	43,352,147
	Net assets, end of year				\$ 29,398,855	\$ 15,618,011	\$ 45,016,866	\$ 1,450,185	\$ 46,467,051

See accompanying notes to financial statements.

CITY OF REEDLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue						Total Governmental Funds
	General	Gas Tax	Street Projects	Public Safety Sales Tax	Developer Impact Fees	Other Governmental Funds	
Assets							
Cash and cash equivalents	\$ 561,904	\$ 81,617	\$ 1,119,851	\$ 785,155	\$ 5,097,042	\$ 918,724	\$ 8,564,293
Accounts receivable	83,800	18	131,970	178	493,852	380,903	1,090,721
Deposit	5,000						5,000
Due from other funds	<u>933,150</u>				<u>150,961</u>		<u>1,084,111</u>
	<u>\$ 1,583,854</u>	<u>\$ 81,635</u>	<u>\$ 1,251,821</u>	<u>\$ 785,333</u>	<u>\$ 5,741,855</u>	<u>\$ 1,299,627</u>	<u>\$ 10,744,125</u>
Liabilities and Fund Balance							
Liabilities							
Accounts payable and accrued expense	\$ 37,259	\$ 587	\$ 19,083	\$ 388	\$ 5,552	\$ 120,549	\$ 183,418
Accrued wages and related costs	214,874	58,186		28,185		6,510	307,755
Due to other funds			<u>501,256</u>	<u>150,961</u>		<u>250,405</u>	<u>902,622</u>
Total liabilities	<u>252,133</u>	<u>58,773</u>	<u>520,339</u>	<u>179,534</u>	<u>5,552</u>	<u>377,464</u>	<u>1,393,795</u>
Fund balance							
Nonspendable	938,150				150,961		1,089,111
Restricted		22,862	731,482	605,799			1,360,143
Assigned	77,818				63,303	1,023,894	1,165,015
Unassigned/(deficit)	<u>315,753</u>				<u>5,522,039</u>	<u>(101,731)</u>	<u>5,736,061</u>
Total fund balance	<u>1,331,721</u>	<u>22,862</u>	<u>731,482</u>	<u>605,799</u>	<u>5,736,303</u>	<u>922,163</u>	<u>9,350,330</u>
	<u>\$ 1,583,854</u>	<u>\$ 81,635</u>	<u>\$ 1,251,821</u>	<u>\$ 785,333</u>	<u>\$ 5,741,855</u>	<u>\$ 1,299,627</u>	<u>\$ 10,744,125</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances	\$ 9,350,330
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	20,258,969
The internal service fund is used to charge the costs of automotive equipment activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	43,587
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(254,031)</u>
Net assets of governmental activities	<u>\$ 29,398,855</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue						Total Governmental Funds
	General	Gas Tax	Street Projects	Public Safety Sales Tax	Developer Impact Fees	Other Governmental Funds	
Revenue							
Intergovernmental	\$ 2,389,694	\$ 249,584	\$ 1,124,370	\$	\$	\$ 1,896,523	\$ 5,660,171
Taxes	2,686,580	422,852		830,795		342,265	4,282,492
Charges for services	1,193,553		106		390,134	196,900	1,780,693
Licenses and permits	202,920						202,920
Interest	60,009	734	12,340	8,372	66,595	11,596	159,646
Other	111,288	2,225	25,274			1,034	139,821
Total revenue	6,644,044	675,395	1,162,090	839,167	456,729	2,448,318	12,225,743
Expenditures							
Public safety	5,078,808			672,887	36,546	109,383	5,897,624
Public works	428,824	718,289	808,634		280,976	1,755,832	3,992,555
Community services	821,327					343,047	1,164,374
Administration and finance	629,505					17,293	646,798
Community development	426,284						426,284
Debt service				52,750	305,255		358,005
Total expenditures	7,384,748	718,289	808,634	725,637	622,777	2,225,555	12,485,640
Revenue over/(under) expenditures	(740,704)	(42,894)	353,456	113,530	(166,048)	222,763	(259,897)
Other financing sources/(uses)							
Transfers in/(out) – net	426,295					(426,295)	
Net change in fund balance	(314,409)	(42,894)	353,456	113,530	(166,048)	(203,532)	(259,897)
Fund balance, beginning of year	1,646,130	65,756	378,026	492,269	5,902,351	1,125,695	9,610,227
Fund balance, end of year	\$ 1,331,721	\$ 22,862	\$ 731,482	\$ 605,799	\$ 5,736,303	\$ 922,163	\$ 9,350,330

See accompanying notes to financial statements.

CITY OF REEDLEY
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND NET ASSETS
TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balance - total governmental funds	\$ (259,897)
Amounts reported for governmental activities in the statement of activities are different because:	
The internal service fund change in net assets	(46,615)
Net decrease in compensated absences payable	4,562
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,547,561
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of long-term liabilities principal reduction during the current period.	<u>101,270</u>
Change in net assets of governmental activities	<u>\$ 1,346,881</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

Page 1 of 2

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Assets						
Current assets						
Cash and cash equivalents	\$ 5,504,161	\$ 2,722,516	\$ 430,422	\$	\$ 8,657,099	\$ 34,357
Accounts receivable	86,785	50,308	176,975	203	314,271	
Current portion of noncurrent assets	14,690	20,981			35,671	
Inventory	<u>38,861</u>	<u>24,488</u>			<u>63,349</u>	<u>4,389</u>
Total current assets	<u>5,644,497</u>	<u>2,818,293</u>	<u>607,397</u>	<u>203</u>	<u>9,070,390</u>	<u>38,746</u>
Noncurrent assets						
Property, plant and equipment (net of allowance for depreciation)	11,454,698	38,058,057	922,299	2,973,984	53,409,038	42,675
Bond issuance cost (net of allowance for amortization)	<u>703,876</u>	<u>317,847</u>			<u>1,021,723</u>	
Total noncurrent assets	<u>12,158,574</u>	<u>38,375,904</u>	<u>922,299</u>	<u>2,973,984</u>	<u>54,430,761</u>	<u>42,675</u>
Total assets	<u>17,803,071</u>	<u>41,194,197</u>	<u>1,529,696</u>	<u>2,974,187</u>	<u>63,501,151</u>	<u>81,421</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Liabilities						
Current liabilities						
Accounts payable and accrued expense	\$ 303,485	\$ 629,238	\$ 126,066	\$ 64,013	\$ 1,122,802	\$ 21,734
Accrued wages and related costs	39,057	49,084	51,870	443	140,454	16,100
Deposits	188,439			7,335	195,774	
Current portion of deferred liabilities	295,000	1,383,011	106,490		1,784,501	
Due to other funds				181,489	181,489	
Total current liabilities	825,981	2,061,333	284,426	253,280	3,425,020	37,834
Deferred liabilities						
Capital leases payable		102,872	211,566		314,438	
Revenue bonds payable	14,135,000	4,270,000			18,405,000	
Note payable		25,347,754		390,928	25,738,682	
Total liabilities	14,960,981	31,781,959	495,992	644,208	47,883,140	37,834
Net Assets						
Invested in capital assets, net of related debt		6,356,689	402,042	2,914,435	9,673,166	42,675
Designated				8,180	8,180	
Unrestricted/(deficit)	2,842,090	3,055,549	631,662	(592,636)	5,936,665	912
Total net assets	\$ 2,842,090	\$ 9,412,238	\$ 1,033,704	\$ 2,329,979	\$ 15,618,011	\$ 43,587

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Operating revenue						
Charges for services						
User fees	\$ 2,966,926	\$ 3,053,292	\$ 3,002,464	\$ 134,675	\$ 9,157,357	\$ 877,806
Rents				95,317	95,317	
Miscellaneous	<u>64,026</u>	<u>3,414</u>	<u>3,344</u>	<u>56</u>	<u>70,840</u>	<u>8,097</u>
Total operating revenue	<u>3,030,952</u>	<u>3,056,706</u>	<u>3,005,808</u>	<u>230,048</u>	<u>9,323,514</u>	<u>885,903</u>
Operating expense						
Contractual services, supplies and utilities	934,824	955,188	1,348,296	212,072	3,450,380	384,660
Personnel	762,861	913,736	928,932	20,624	2,626,153	222,624
Depreciation and amortization	180,714	384,897	147,912	56,633	770,156	3,403
Repairs	<u>197,908</u>	<u>83,999</u>	<u>340,771</u>	<u>2,707</u>	<u>625,385</u>	<u>321,831</u>
Total operating expense	<u>2,076,307</u>	<u>2,337,820</u>	<u>2,765,911</u>	<u>292,036</u>	<u>7,472,074</u>	<u>932,518</u>
Operating income/(loss)	<u>954,645</u>	<u>718,886</u>	<u>239,897</u>	<u>(61,988)</u>	<u>1,851,440</u>	<u>(46,615)</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Operating income/(loss)	\$ 954,645	\$ 718,886	\$ 239,897	\$ (61,988)	\$ 1,851,440	\$ (46,615)
Nonoperating revenue/(expense)						
Intergovernmental	2,493	10,165	2,493	768,831	783,982	
Interest income	12,510	74,256	5,742		92,508	
Property taxes				7,513	7,513	
Interest expense	(464,209)	(944,957)	(43,049)	(22,261)	(1,474,476)	
Total nonoperating revenue/(expense)	(449,206)	(860,536)	(34,814)	754,083	(590,473)	
Net revenue over/(under) expense	505,439	(141,650)	205,083	692,095	1,260,967	(46,615)
Net operating transfers in/(out)						
Change in net assets	505,439	(141,650)	205,083	692,095	1,260,967	(46,615)
Net assets, beginning of year	2,336,651	9,553,888	828,621	1,637,884	14,357,044	90,202
Net assets, end of year	<u>\$ 2,842,090</u>	<u>\$ 9,412,238</u>	<u>\$ 1,033,704</u>	<u>\$ 2,329,979</u>	<u>\$ 15,618,011</u>	<u>\$ 43,587</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Page 1 of 3

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Cash flow from operating activities						
Receipts from customers and users	\$ 2,990,535	\$ 3,053,254	\$ 2,882,638	\$ 229,694	\$ 9,156,121	\$ 877,806
Other operating revenue received	64,026	3,414	3,344	56	70,840	8,097
Payments for contractual services, supplies and utilities	(1,089,183)	(1,034,083)	(1,647,682)	(155,263)	(3,926,211)	(705,516)
Payments to employees	(759,619)	(916,015)	(936,618)	(20,282)	(2,632,534)	(220,581)
Other miscellaneous payments						
Net cash provided by/ (used for) operating activities	<u>1,205,759</u>	<u>1,106,570</u>	<u>301,682</u>	<u>54,205</u>	<u>2,668,216</u>	<u>(40,194)</u>
Cash flow from noncapital financing activities						
Payments from other governments	2,493	10,165	2,493	768,831	783,982	
Other income				7,513	7,513	
Payments from/(to) other funds				4,068	4,068	
Net cash provided by/(used for) noncapital financing activities	<u>2,493</u>	<u>10,165</u>	<u>2,493</u>	<u>780,412</u>	<u>795,563</u>	

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Page 2 of 3

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Cash flow from capital and related financing activities						
Purchase of property, plant and equipment	\$ (138,305)	\$ (100,468)	\$ (424,273)	\$ (791,337)	\$ (1,454,383)	\$ (40,194)
Loan proceeds to purchase property, plant and equipment			208,737		208,737	
Principal paid on long-term debt	(285,000)	(1,308,328)	(34,502)	(21,019)	(1,648,849)	
Interest paid on long-term debt	(464,209)	(944,957)	(43,049)	(22,261)	(1,474,476)	
Net cash provided by/(used for) capital and related financing activities	<u>(887,514)</u>	<u>(2,353,753)</u>	<u>(293,087)</u>	<u>(834,617)</u>	<u>(4,368,971)</u>	<u>(40,194)</u>
Cash flow from investing activities						
Interest received	<u>12,510</u>	<u>74,256</u>	<u>5,742</u>		<u>92,508</u>	
Net increase/(decrease) in cash	333,248	(1,162,762)	16,830		(812,684)	(40,194)
Cash, beginning of year	<u>5,170,913</u>	<u>3,885,278</u>	<u>413,592</u>		<u>9,469,783</u>	<u>74,551</u>
Cash, end of year	<u>\$ 5,504,161</u>	<u>\$ 2,722,516</u>	<u>\$ 430,422</u>	<u>\$</u>	<u>\$ 8,657,099</u>	<u>\$ 34,357</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Page 3 of 3

	<u>Business-Type Activities – Enterprise Funds</u>				Total Business- Type Funds	Governmental Activities - Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Disposal</u>	<u>Airport</u>		
Reconciliation of operating income to net cash provided by/(used for) operating activities:						
Operating income/(loss)	\$ 954,645	\$ 718,886	\$ 239,897	\$ (61,988)	\$ 1,851,440	\$ (46,615)
Adjustment to reconcile operating income/ (loss) to net cash provided by/(used for) operating activities:						
Depreciation and amortization expense	180,714	384,897	147,912	56,633	770,156	3,403
(Increase)/decrease in accounts receivable	(2,468)	(38)	(119,826)	(203)	(122,535)	
(Increase)/decrease in inventory	(20,798)	(1,622)			(22,420)	2,265
Increase/(decrease) in accounts payable and accrued expense	64,347	6,726	41,385	59,516	171,974	(1,290)
Increase/(decrease) in accrued wages and related costs	3,242	(2,279)	(7,686)	342	(6,381)	2,043
Increase/(decrease) in deposits	<u>26,077</u>			<u>(95)</u>	<u>25,982</u>	
Net cash provided by/(used for) operating activities	<u>\$ 1,205,759</u>	<u>\$ 1,106,570</u>	<u>\$ 301,682</u>	<u>\$ 54,205</u>	<u>\$ 2,668,216</u>	<u>\$ (40,194)</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Agency Funds		Total Fiduciary Funds
	Improvement District	Deposits	
Assets			
Cash and cash equivalents	\$ 238	\$ 261,500	\$ 261,738
Total assets	238	261,500	261,738
Liabilities			
Accounts payable		3,336	3,336
Trust liabilities	238	258,164	258,402
Total liabilities	238	261,500	261,738
Net assets	\$ -0-	\$ -0-	\$ -0-

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF NET ASSETS
COMPONENT UNIT
JUNE 30, 2011

	<u>Reedley Redevelopment Agency</u>	<u>Total</u>
Assets		
Cash and cash equivalents	\$ 8,445,415	\$ 8,445,415
Accounts receivable	1,831	1,831
Notes receivable	742,876	742,876
Due from City of Reedley	390,928	390,928
Deferred charges	433,378	433,378
Capital assets (net of allowance for depreciation)	<u>376,102</u>	<u>376,102</u>
Total assets	<u>10,390,530</u>	<u>10,390,530</u>
Liabilities		
Accounts payable and accrued expense	110,560	110,560
Accrued wages and related costs	4,785	4,785
Long-term liabilities		
Due within one year	155,000	155,000
Due in more than one year	<u>8,670,000</u>	<u>8,670,000</u>
Total liabilities	<u>8,940,345</u>	<u>8,940,345</u>
Net Assets		
Invested in capital assets, net of related debt	376,102	376,102
Unrestricted/(deficit)	<u>1,074,083</u>	<u>1,074,083</u>
Total net asset/(deficit)	<u>\$ 1,450,185</u>	<u>\$ 1,450,185</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
STATEMENT OF ACTIVITIES
COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Net Revenue/(Expense) and Change in Net Assets Primary Government</u>	
			<u>Governmental Activities</u>	<u>Total</u>
Functions/Programs				
Primary government:				
Governmental activities:				
Property tax pass-through	\$ 1,066,974	\$	\$ (1,066,974)	\$ (1,066,974)
Economic development	376,578	3,112	(373,466)	(373,466)
Interest on long-term debt	373,848	3,254	(370,594)	(370,594)
Low – moderate housing	369,155	363,819	(5,336)	(5,336)
Property tax rebate	129,651		(129,651)	(129,651)
Improvement district grant	125,000		(125,000)	(125,000)
General government	<u>96,784</u>		<u>(96,784)</u>	<u>(96,784)</u>
Total governmental activities	<u>\$ 2,537,990</u>	<u>\$ 370,185</u>	<u>(2,167,805)</u>	<u>(2,167,805)</u>
General revenue:				
Property taxes			2,613,192	2,613,192
Interest and investment earnings			<u>59,470</u>	<u>59,470</u>
Total general revenue			<u>2,672,662</u>	<u>2,672,662</u>
Change in net assets			504,857	504,857
Net assets/(deficit), beginning of year			<u>945,328</u>	<u>945,328</u>
Net assets/(deficit), end of year			<u>\$ 1,450,185</u>	<u>\$ 1,450,185</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Reedley, State of California (the “City”), was incorporated on February 18, 1913. The City operates under a Council-Manager form of government. The City’s major operations include public safety (police and fire); highways and streets; water, sewer and refuse collection; parks and recreation; building inspection; airport; public improvements; planning and zoning and general administrative services.

The City’s financial statements are prepared in accordance with generally 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 December 6, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

Now, financial statements include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all the City’s activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City implemented the general provisions of the Statement for the year ended June 30, 2003.

A. Reporting Entity

These financial statements present the City (the primary government) and its component units, the Reedley Redevelopment Agency and the Reedley Public Financing Authority. As defined by GASB Statement No.14, component units are legally separate entities that are included in the City’s reporting entity because of the significance of their operating or financial relationships with the City.

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Reedley Redevelopment Agency (the “Agency”) was established in 1990 under the provisions of the State of California Health and Safety Code Section 33000. The primary purpose of the Agency is to encourage redevelopment of property and to rehabilitate areas suffering from economic disuse. Members of the City Council of the City act as the governing body of the Agency and the City provides loans and management assistance to the Agency. Separate financial statements are issued for the Agency.

The Reedley Public Financing Authority (the “Authority”) was created by a Joint Exercise of Powers between the City and the Agency on November 23, 1993. An Agreement was entered into pursuant to the provisions of the Marks Roos Local Bond Pooling Act of 1985, Articles 1, 2 and 4, Chapter 5, Division 7, Title 1 of the California Government Code (the “JPA Law”). The Authority, which is governed by a commission consisting of the members of the City Council, was created for the purpose of assisting the financing or refinancing of the Authority’s project areas. Under the JPA Law, the Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale.

B. Basic Financial Statements – Government-Wide Statements

The City’s basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City’s public safety, highways and streets, parks and recreation, building inspection, public improvements, planning and zoning and general administrative services are classified as governmental activities. The City’s water, sewer, refuse collection and airport services are classified as business-type activities.

In the government-wide Statement of Net Assets, both governmental and business-type activities are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. 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 qualified activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City’s functions and business-type activities (public safety, public improvements, etc.). The functions are also supported by general government revenue (property, sales and other taxes, certain intergovernmental revenue, fines, permits and charges, etc.). The Statement of Activities reduces gross expense (including depreciation) by related program revenue, operating and capital grants. Program revenue must be directly associated with the function or business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants (property, plant and equipment).

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or other taxes, intergovernmental revenue, interest income, etc.).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the other operating funds that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund) to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenue and expenditures or expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
- d. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Funds:

The focus of proprietary funds measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- a. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenue, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs.
- b. Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the City on a cost-reimbursement basis.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenue or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The City's internal service fund is presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service fund are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (public safety, public improvements, etc.).

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide financial statements.

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Basis of Accounting

Basis of accounting refers to the point at which revenue and expenditure/expense are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinions issued after November 30, 1989.

Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned and expense is recognized when incurred.

Modified accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is the principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

Cash and cash equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Investments:

Investments, including deferred compensation and pension funds, if any, are stated at fair value (quoted market price or the best available estimate).

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventories:

Inventories consist of expendable supplies held for the City's use and are carried at cost using the first-in, first-out method.

Capital Assets:

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided using the straight-line method over the following estimated useful lives:

Buildings	30 years
Improvements other than buildings	40 years
Utility plant	40 years
Furniture and equipment	10 years
Automobiles and trucks	5 years

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective July 1, 2004. Infrastructure assets include roads, bridges underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the City's financial statements. Retroactive reporting of infrastructure is subject to an extended implementation period and was first effective for fiscal year ending June 30, 2006. The City was required to implement the general provisions of GASB Statement No. 34 in prior years and implemented the retroactive provisions (under the modified approach) in the fiscal year ending June 30, 2009.

Fund Equity:

In the fund financial statements, governmental funds report fund balance amounts in the following classifications: Nonspendable, restricted, committed, assigned and unassigned. Nonspendable amounts represent inventories, prepaid items and long-term receivables. Restricted amounts have been restricted by external bodies. Committed amounts have been restricted by the District's governing board. Assigned amounts represent tentative designations by the District. Unassigned amounts are spendable and are not restricted, committed or assigned.

Revenue:

Substantially all governmental fund revenue is accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

on GASB Statement No. 33. In applying Statement No. 33 to grant revenue, the provider recognizes liabilities and expense and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures:

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Compensated absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in future years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Interfund activity:

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenue and expenditure/expense. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Capitalization of leases:

Capitalizable leases have been treated in accordance with FASB Statement No. 13, "Accounting for Leases", as amended. See Notes 4 and 5 for further discussion.

Pension plan:

All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See note six.

Bond discount and issuance costs:

For governmental funds, bond discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable discount. Issuance costs, whether or not withheld from the actual net proceeds received, are

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

reported as debt service expenditures. For business-type funds, bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond discounts. Issuance costs are reported as deferred charges.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

2. CASH AND CASH EQUIVALENTS

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit of time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation. The following is a summary of cash as of June 30, 2011:

Cash on hand	\$ 4,000
Cash with fiscal agents	5,249,211
Deposits	1,046,702
Local Agency Investment Fund	2,283,904
Securities	<u>8,671,932</u>
	<u>\$ 17,255,749</u>

The City's investments with LAIF at June 30, 2011 include a portion of the pooled funds invested in derivatives and similar transactions. These investments may include the following:

Structured notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

As of June 30, 2011, the City had \$2,283,904 invested in LAIF.

Cash held by fiscal agents amounted to \$5,249,211 as of June 30, 2011. Fiscal agents hold these funds for disbursements related only to debt service and fixed asset acquisition.

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

3. CAPITAL ASSETS

Capital assets (property, plant and equipment) of governmental activities (including capital assets of the internal service fund), consisted of the following as of June 30, 2011:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Land	\$ 2,792,382	\$	\$	\$ 2,792,382
Buildings	1,388,765			1,388,765
Improvements	15,462,893	1,771,905		17,234,798
Furniture and equipment	1,245,601			1,245,601
Vehicles	<u>3,945,940</u>	<u>90,918</u>	<u></u>	<u>4,036,858</u>
 Total	 24,835,581	 1,862,823		 26,698,404
Allowance for depreciation	<u>(6,080,295)</u>	<u>(316,465)</u>	<u></u>	<u>(6,396,760)</u>
	 <u>\$ 18,755,286</u>	 <u>\$ 1,546,358</u>	 <u>\$</u>	 <u>\$ 20,301,644</u>

Capital assets in the proprietary funds as of June 30, 2011, consisted of the following:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Land	\$ 1,032,599	\$	\$	\$ 1,032,599
Buildings	970,532			970,532
Improvements	51,970,511	984,423		52,954,934
Furniture and equipment	7,727,004	424,273		8,151,277
Vehicles	<u>2,772,848</u>	<u>45,688</u>	<u></u>	<u>2,818,536</u>
 Total	 64,473,494	 1,454,384		 65,927,878
Allowance for depreciation	<u>(11,783,020)</u>	<u>(735,820)</u>	<u></u>	<u>(12,518,840)</u>
	 <u>\$ 52,690,474</u>	 <u>\$ 718,564</u>	 <u>\$</u>	 <u>\$ 53,409,038</u>

4. LONG-TERM LIABILITIES (GOVERNMENTAL ACTIVITIES)

During the year ended June 30, 2011, the following changes occurred to long-term liabilities of governmental activities:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Compensated absences	\$ 258,593	\$	\$ 4,562	\$ 254,031
Capital lease obligation	<u>101,270</u>	<u></u>	<u>101,270</u>	<u></u>
	 <u>\$ 359,863</u>	 <u>\$</u>	 <u>\$ 105,832</u>	 <u>\$ 254,031</u>

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. LONG-TERM LIABILITIES (PROPRIETARY FUNDS)

During the year ended June 30, 2011, the following changes occurred in the long-term debt of the proprietary funds:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Revenue bonds payable	\$ 815,000	\$	\$ 150,000	\$ 665,000
Revenue bonds payable	14,715,000		285,000	14,430,000
Revenue bonds payable	3,925,000		80,000	3,845,000
Note payable	27,517,152		1,052,939	26,464,213
Note payable		390,928		390,928
Capital lease payable	154,813		25,390	129,423
Capital lease payable	143,821		34,502	109,319
Capital lease payable		208,738		208,738
Advance from other fund	238,288		238,288	
Advance from other fund	<u>173,659</u>		<u>173,659</u>	
	<u>\$ 47,682,733</u>	<u>\$ 599,666</u>	<u>\$ 2,039,778</u>	<u>\$ 46,242,621</u>

Revenue Bonds Payable

The 2001 Reedley Public Financing Authority Lease Revenue Refunding Bonds (Wastewater Treatment Plant Project) in the amount of \$1,950,000 were issued on December 18, 2001. Interest on the bonds ranges from 2.00% to 4.55%. The City signed a lease agreement with the Authority with loan payments plus interest due June 1 of each year beginning in 2002 through 2015. The bonds are subject to optional redemption on or after June 1, 2012, with mandatory redemption on June 1, 2015. The annual debt requirements due under the terms of the bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 155,000	\$ 28,383	\$ 183,383
2013	165,000	22,028	187,028
2014	170,000	15,097	185,097
2015	<u>175,000</u>	<u>7,787</u>	<u>182,787</u>
Total	<u>\$ 665,000</u>	<u>\$ 73,295</u>	<u>\$ 738,295</u>

The Trust Agreement signed by the City upon the issuance of the Lease Revenue Refunding Bonds requires that a separate Reserve Account be established and that the Reserve Account maintain an amount equal to the Reserve Requirement which is \$187,028. In addition, the Continuing Disclosure Agreement requires an Annual Rate Covenant Test. The following presentation satisfies those requirements:

Reserve Account balance as of June 30, 2011	<u>\$ 183,808</u>
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CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. LONG-TERM LIABILITIES (PROPRIETARY FUNDS), Continued

Annual Rate Covenant Test:

Annual Rate Covenant (110 percent of Maximum Annual Debt Service on the Bonds)	<u>\$ 205,730</u>
Sewer Utility Fund Wastewater Gross Revenue	\$ 3,056,706
Sewer Utility Fund Wastewater Operation and Maintenance Costs	<u>1,815,063</u>
Sewer Utility Fund Wastewater System "Net Revenues" (exceeds Annual Rate Covenant)	<u>\$ 1,241,643</u>

The City did not maintain a balance in the Reserve Account equal to or greater than the Reserve Requirement. The deficiency amounted to \$3,220.

The 2009 Reedley Public Financing Authority Wastewater Revenue Bonds in the amount of \$4,155,000 were issued on April 10, 2009. Interest on the bonds ranges from 3.550% to 4.400%. The City signed an agreement with the Authority with loan payments plus interest due June 1 of each year beginning in 2011 through 2037. The annual debt requirements due under the terms of the bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 85,000	\$ 165,251	\$ 250,251
2013	90,000	161,852	251,852
2014	90,000	158,251	248,251
2015	95,000	154,651	249,651
2016	100,000	150,851	250,851
2017 – 2021	555,000	690,983	1,245,983
2022 – 2026	685,000	563,494	1,248,494
2027 – 2031	850,000	399,525	1,249,525
2032 – 2036	1,055,000	196,020	1,251,020
2037	<u>240,000</u>	<u>10,560</u>	<u>250,560</u>
Total	<u>\$ 3,845,000</u>	<u>\$ 2,651,438</u>	<u>\$ 6,496,438</u>

The 2009 Reedley Public Financing Authority Water Revenue Bonds in the amount of \$15,250,000 were issued on May 11, 2009. Interest on the bonds ranges from 4.000% to 5.000%. The City signed an agreement with the Authority with loan payments plus interest due September 1 of each year beginning in 2011 through 2037. The annual debt requirements due under the terms of the bonds are as follows:

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. LONG-TERM LIABILITIES (PROPRIETARY FUNDS), Continued

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 295,000	\$ 622,862	\$ 917,862
2013	305,000	610,863	915,863
2014	320,000	598,363	918,363
2015	330,000	585,362	915,362
2016	345,000	571,863	916,863
2017 - 2021	1,965,000	2,613,837	4,578,837
2022 - 2026	2,425,000	2,147,294	4,572,294
2027 - 2031	3,000,000	1,559,938	4,559,938
2032 - 2036	3,715,000	821,387	4,536,387
2037 - 2038	<u>1,730,000</u>	<u>78,750</u>	<u>1,808,750</u>
Total	<u>\$ 14,430,000</u>	<u>\$ 10,210,519</u>	<u>\$ 24,640,519</u>

Notes Payable

On October 23, 2009, the Sewer Fund entered into an agreement with the State Water Resources Control Board to borrow up to \$26,964,921 to finance various wastewater treatment plant improvements. Through June 30, 2011, the Sewer Fund had drawn \$24,268,429 of these funds. This obligation bears interest at the rate of 2.40 percent per annum. The annual debt requirements due under the terms of the note are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,116,460	\$ 634,330	\$ 1,750,790
2013	1,142,444	608,346	1,750,790
2014	1,169,862	580,927	1,750,789
2015	1,197,939	552,851	1,750,790
2016	1,226,689	524,100	1,750,789
2017 - 2021	6,589,443	2,164,505	8,753,948
2022 - 2026	7,419,054	1,334,894	8,753,948
2027 - 2030	<u>6,602,322</u>	<u>400,836</u>	<u>7,003,158</u>
Total	<u>\$ 26,464,213</u>	<u>\$ 6,800,789</u>	<u>\$ 33,265,002</u>

On March 22, 2011, the Airport Fund borrowed \$390,928 from the Reedley Redevelopment Agency to finance airport expansion. Terms of the agreement call for annual payments from the Airport Fund to the Redevelopment Agency of \$34,268. The obligation bears interest at the rate of 3.50 percent per annum. The annual debt requirements due under the terms of the loan are as follows:

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. LONG-TERM LIABILITIES (PROPRIETARY FUNDS), Continued

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 16,706	\$ 17,562	\$ 34,268
2013	21,170	13,098	34,268
2014	21,911	12,357	34,268
2015	22,678	11,590	34,268
2016	23,472	10,796	34,268
2017 - 2021	130,271	41,068	171,339
2022 - 2026	<u>154,720</u>	<u>16,618</u>	<u>171,338</u>
Total	<u>\$ 390,928</u>	<u>\$ 123,089</u>	<u>\$ 514,017</u>

Capital Leases Payable

On December 22, 2005, the Disposal Fund acquired a refuse vehicle and financed the purchase with a capital lease. Terms of the agreement call for quarterly payments of \$18,928. The obligation bears interest at the rate of 4.40 percent per annum. The annual debt requirements due under the terms of the lease are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 72,079	\$ 3,631	\$ 75,710
2013	<u>37,240</u>	<u>615</u>	<u>37,855</u>
Total	<u>\$ 109,319</u>	<u>\$ 4,246</u>	<u>\$ 113,565</u>

On December 22, 2005, the Sewer Fund acquired a vactor truck and financed the purchase with a capital lease. Terms of the agreement call for quarterly payments of \$7,983. The obligation bears interest at the rate of 4.50 percent per annum. The annual debt requirements due under the terms of the lease are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 26,552	\$ 5,380	\$ 31,932
2013	27,767	4,165	31,932
2014	29,038	2,894	31,932
2015	30,367	1,565	31,932
2016	<u>15,699</u>	<u>267</u>	<u>15,966</u>
Total	<u>\$ 129,423</u>	<u>\$ 14,271</u>	<u>\$ 143,694</u>

On April 15, 2011, the Disposal Fund acquired a mobile diesel powered wood grinder/colorizer and financed the purchase with a capital lease. Terms of the agreement call for monthly payments of \$4,102. The obligation bears interest at the rate of 4.10 percent per annum. The annual debt requirements due under the terms of the lease are as follows:

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. LONG-TERM LIABILITIES (PROPRIETARY FUNDS), Continued

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 34,412	\$ 6,606	\$ 41,018
2013	42,873	6,348	49,221
2014	44,665	4,556	49,221
2015	46,531	2,690	49,221
2016	<u>40,257</u>	<u>760</u>	<u>41,017</u>
Total	<u>\$ 208,738</u>	<u>\$ 20,960</u>	<u>\$ 229,698</u>

6. PENSION PLAN

Plan Description: The City contributes to the California Public Employees’ Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and other requirements are established by state statute and city ordinance. Copies of PERS’ annual financial report may be obtained from their Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy: Participants are required to contribute seven percent (nine percent for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 11.030 percent for non-safety employees and 21.455 percent (fire) and 26.892 (police) for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended.

Annual Pension Cost: For the year ended June 30, 2011, the City’s annual pension cost of \$1,222,166 for PERS was equal to the City’s required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 16 years as of the valuation date.

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

6. PENSION PLAN, Continued

FIVE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	\$ 804,604	100	-0-
6/30/07	983,410	100	-0-
6/30/08	1,074,756	100	-0-
6/30/09	1,101,226	100	-0-
6/30/10	1,192,908	100	-0-
6/30/11	1,222,166	100	-0-

Valuation Date	Entry Age Normal Accrued Liabilities	Actuarial Value of Assets	Unfunded Liability (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Payroll
6/30/05	\$4,216,971,405	\$3,694,011,221	\$522,960,184	87.6%	\$ 916,492,750	57.1%
6/30/06	4,227,681,460	3,744,285,644	483,395,816	88.6%	876,986,725	55.1%
6/30/07	4,259,906,312	3,813,577,552	446,328,760	89.5%	866,060,115	51.5%
6/30/08	4,535,840,079	4,064,932,887	470,907,192	89.6%	899,197,248	52.4%
6/30/09	4,907,680,552	4,278,592,429	629,088,123	87.2%	964,581,680	65.2%
6/30/10	5,224,160,760	4,575,323,389	648,837,371	87.6%	972,963,360	66.7%

Information for the year ended June 30, 2011 is not yet available.

7. FRESNO COUNTY TRANSPORTATION AUTHORITY

The Fresno County Transportation Authority Fund (FCTA) is comprised five individual funds. The activity for the five individual funds is included within the Street Projects Fund in the financial statements. The following is a summary of these funds for the year ended June 30, 2011:

	Flexible Funding	Americans with Disabilities Act	Street Maintenance	Pedestrian Trails	Bike	Total
Total assets	\$ 418,923	\$ 21,166	\$ 606,709	\$ 88,422	\$ 26,147	\$1,161,367
Total liabilities	1,694			1,172		2,866
Net assets	<u>\$ 417,229</u>	<u>\$ 21,166</u>	<u>\$ 606,709</u>	<u>\$ 87,250</u>	<u>\$ 26,147</u>	<u>\$1,158,501</u>
Total revenue	\$ 216,610	\$ 7,403	\$ 221,506	\$ 42,335	\$ 11,124	\$ 498,978
Total expenditures	159,106	1,537	1,158	37,123	6,141	205,065
Increase/decrease in net assets	<u>\$ 57,504</u>	<u>\$ 5,866</u>	<u>\$ 220,348</u>	<u>\$ 5,212</u>	<u>\$ 4,983</u>	<u>\$ 293,913</u>

CITY OF REEDLEY
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2011

8. FUND BALANCE

Fund Balances Reservations/Designations

Fund balances as of June 30, 2011, have been designated for the following purposes:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Designated for			
Nonspendable (unavailable for spending) \$	938,149	\$	\$
Restricted (by external entities)		1,360,143	8,180
Committed (by City Council)			
Assigned (by management)	77,818	1,087,197	
Unassigned (undesigned)	<u>315,754</u>	<u>5,571,269</u>	<u>5,936,665</u>
	<u>\$ 1,331,721</u>	<u>\$ 8,018,609</u>	<u>\$ 5,944,845</u>

Fund Balance and Retained Earnings Deficits

The following is a summary of deficit fund balances and retained earnings as of June 30, 2011:

Special revenue fund – Community Development Block Grant	\$	98,758
Special revenue fund – Transit		2,973

9. RISK MANAGEMENT

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim through the CSJVRMA. The City has the right to receive dividends and the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$50,000. The CSJVRMA participates in an excess pool, which provides general liability coverage from \$1,000,000 to \$15,000,000.

The CSJVRMA is a consortium of 54 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a board of directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The audited financial position and results of operations of CSJVRMA as of June 30, 2011, are presented below:

CITY OF REEDLEY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

9. RISK MANAGEMENT, Continued

Total assets	\$ 69,444,059
Total liabilities	<u>55,945,081</u>
Net assets	<u>\$ 13,498,978</u>
Total revenue	\$ 28,377,519
Total expenses	<u>26,762,465</u>
Increase/(decrease) in net assets	<u>\$ 1,615,054</u>

At the termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the member cities in accordance with governing documents of CSJVRMA.

10. CONTINGENCIES

Federal and State Government Programs

The City participates in several federal and state grant programs. These programs have been audited in accordance with the provisions of the federal Single Audit Act of 1984 and applicable state requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

CITY OF REEDLEY
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2010

Assets	<u>Storm Drainage</u>	<u>Transit</u>	<u>Community Development Block Grant</u>	<u>Street Project Funds</u>	<u>Local Transpor- tation</u>	<u>Senior Citizens</u>	<u>Landscape Mainte- nance</u>	<u>Community Facilities District</u>	<u>Downtown Streetscape</u>	<u>COPS Program</u>	<u>Total Nonmajor Special Revenue Funds</u>
Cash and cash equivalents	\$	\$	\$	\$ 400,334	\$ 208,892	\$	\$ 108,999	\$ 60,221	\$ 140,278	\$	\$ 918,724
Accounts receivable		141,338	94,989	91	125,503	7,110	25	14	475	11,358	380,903
	<u>\$</u>	<u>\$ 141,338</u>	<u>\$ 94,989</u>	<u>\$ 400,425</u>	<u>\$ 334,395</u>	<u>\$ 7,110</u>	<u>\$ 109,024</u>	<u>\$ 60,235</u>	<u>\$ 140,753</u>	<u>\$ 11,358</u>	<u>\$ 1,299,627</u>
Liabilities and Fund Balance											
Liabilities											
Accounts payable and accrued expense	\$	\$ 646	\$ 96,272	\$	\$ 17,474	\$ 5,970	\$ 165	\$	\$ 22	\$	\$ 120,549
Accrued wages and related costs		2,973					3,537				6,510
Due to other funds		140,692	97,475			922				11,316	250,405
Total liabilities		144,311	193,747		17,474	6,892	3,702		22	11,316	377,464
Fund balance											
Assigned				400,425	316,921	218	105,322	60,235	140,731	42	1,023,894
Unassigned/(deficit)		(2,973)	(98,758)								(101,731)
Total fund balance		(2,973)	(98,758)	400,425	316,921	218	105,322	60,235	140,731	42	922,163
	<u>\$</u>	<u>\$ 141,338</u>	<u>\$ 94,989</u>	<u>\$ 400,425</u>	<u>\$ 334,395</u>	<u>\$ 7,110</u>	<u>\$ 109,024</u>	<u>\$ 60,235</u>	<u>\$ 140,753</u>	<u>\$ 11,358</u>	<u>\$ 1,299,627</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2010

	Storm Drainage	Transit	Community Development Block Grant	Street Project Funds	Local Transportation	Senior Citizens	Landscape Maintenance	Community Facilities District	Downtown Streetscape	COPS Program	Total Nonmajor Special Revenue Funds
Revenue											
Intergovernmental	\$ 477,025	275,288	\$ 214,053	\$ 110,270	\$ 580,649	\$ 14,238	\$	\$	\$ 125,000	\$ 100,000	\$ 1,896,523
Taxes								342,265			342,265
Charges for services		31,458				11,402	134,113		19,927		196,900
Interest				7,238	936		1,419		779	1,224	11,596
Other		76			208				750		1,034
Total revenue	<u>477,025</u>	<u>306,822</u>	<u>214,053</u>	<u>117,508</u>	<u>581,793</u>	<u>25,640</u>	<u>135,532</u>	<u>342,265</u>	<u>146,456</u>	<u>101,224</u>	<u>2,448,318</u>
Expenditures											
Public works	477,025		192,406	510,871	324,001		201,625		49,904		1,755,832
Community services		307,595				35,452					343,047
Police										109,383	109,383
Administration								17,293			17,293
Total expenditures	<u>477,025</u>	<u>307,595</u>	<u>192,406</u>	<u>510,871</u>	<u>324,001</u>	<u>35,452</u>	<u>201,625</u>	<u>17,293</u>	<u>49,904</u>	<u>109,383</u>	<u>2,225,555</u>
Revenue over/(under) expenditures		(773)	21,647	(393,363)	257,792	(9,812)	(66,093)	324,972	96,552	(8,159)	222,763
Other financing sources/(uses)											
Operating transfers in/(out)						9,810		(436,105)			(426,295)
Revenue and other financing sources over/(under) expenditures and other financing uses		(773)	21,647	(393,363)	257,792	(2)	(66,093)	(111,133)	96,552	(8,159)	(203,532)
Fund balance, beginning of year		(2,200)	(120,405)	793,788	59,129	220	171,415	171,368	44,179	8,201	1,125,695
Fund balance, end of year	<u>\$</u>	<u>\$ (2,973)</u>	<u>\$ (98,758)</u>	<u>\$ 400,425</u>	<u>\$ 316,921</u>	<u>\$ 218</u>	<u>\$ 105,322</u>	<u>\$ 60,235</u>	<u>\$ 140,731</u>	<u>\$ 42</u>	<u>\$ 922,163</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive – (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 2,603,611	\$ 2,604,611	\$ 2,686,580	\$ 81,969
Intergovernmental	2,459,382	2,458,382	2,389,694	(68,688)
Charges for services	1,088,431	1,088,431	1,193,553	105,122
Licenses and permits	220,500	220,500	202,920	(17,580)
Other	7,500	7,500	111,288	103,788
Interest	<u>99,590</u>	<u>99,590</u>	<u>60,009</u>	<u>(39,581)</u>
Total revenue	<u>6,479,014</u>	<u>6,479,014</u>	<u>6,644,044</u>	<u>165,030</u>
Expenditures				
Current				
Public safety	4,868,840	4,876,350	5,078,808	(202,458)
Community services	863,095	869,996	821,327	48,669
Administration and finance	626,496	626,811	629,505	(2,694)
Public works	494,897	494,900	428,824	66,076
Community development	322,597	421,646	426,284	(4,638)
Debt service	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>7,175,925</u>	<u>7,289,703</u>	<u>7,384,748</u>	<u>(95,045)</u>
Revenue over/(under) expenditures	(696,911)	(810,689)	(740,704)	69,985
Other financing sources				
Transfers in/(out) - net	<u>448,985</u>	<u>448,985</u>	<u>426,295</u>	<u>(22,690)</u>
Net change in fund balance	(247,926)	(361,704)	(314,409)	47,295
Fund balance, beginning of year	<u>1,646,130</u>	<u>1,646,130</u>	<u>1,646,130</u>	<u> </u>
Fund balance, end of year	<u>\$ 1,398,204</u>	<u>\$ 1,284,426</u>	<u>\$ 1,331,721</u>	<u>\$ 47,295</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 BUDGETARY COMPARISON SCHEDULE
 GAS TAX FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive – (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 401,250	\$ 401,250	\$ 422,852	\$ 21,602
Intergovernmental	254,775	254,775	249,584	(5,191)
Other			2,225	2,225
Interest	<u>726</u>	<u>726</u>	<u>734</u>	<u>8</u>
Total revenue	<u>656,751</u>	<u>656,751</u>	<u>675,395</u>	<u>18,644</u>
Expenditures				
Current				
Public works	<u>604,371</u>	<u>719,872</u>	<u>718,289</u>	<u>1,583</u>
Total expenditures	<u>604,371</u>	<u>719,872</u>	<u>718,289</u>	<u>1,583</u>
Revenue over/(under) expenditures	52,380	(63,121)	(42,894)	20,227
Fund balance, beginning of year	<u>65,756</u>	<u>65,756</u>	<u>65,756</u>	<u> </u>
Fund balance, end of year	<u>\$ 118,136</u>	<u>\$ 2,635</u>	<u>\$ 22,862</u>	<u>\$ 20,227</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 BUDGETARY COMPARISON SCHEDULE
 STREET PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive – (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 4,394,581	\$ 4,391,094	\$ 1,124,370	\$ (3,266,724)
Other			25,274	25,274
Interest	8,100	(8,100)	12,340	20,440
Charges for services			<u>106</u>	<u>106</u>
Total revenue	<u>4,402,681</u>	<u>4,382,994</u>	<u>1,162,090</u>	<u>(3,220,904)</u>
Expenditures				
Current				
Public works	<u>4,664,006</u>	<u>4,688,616</u>	<u>808,634</u>	<u>3,879,982</u>
Total expenditures	<u>4,664,006</u>	<u>4,688,616</u>	<u>808,634</u>	<u>3,879,982</u>
Revenue over/(under) expenditures	(261,325)	(305,622)	353,456	659,078
Fund balance, beginning of year	<u>378,026</u>	<u>378,026</u>	<u>378,026</u>	
Fund balance, end of year	<u>\$ 116,701</u>	<u>\$ 72,404</u>	<u>\$ 731,482</u>	<u>\$ 659,078</u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 BUDGETARY COMPARISON SCHEDULE
 PUBLIC SAFETY SALES TAX
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive – (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 830,672	\$ 830,672	\$ 830,795	\$ 123
Interest	<u>5,500</u>	<u>5,500</u>	<u>8,372</u>	<u>2,872</u>
Total revenue	<u>836,172</u>	<u>836,172</u>	<u>839,167</u>	<u>2,995</u>
Expenditures				
Current				
Public safety	1,410,606	904,657	672,887	231,770
Debt service	<u> </u>	<u> </u>	<u>52,750</u>	<u>(52,750)</u>
Total expenditures	<u>1,410,606</u>	<u>904,657</u>	<u>725,637</u>	<u>179,020</u>
Revenue over/(under) expenditures	(574,434)	(68,485)	113,530	182,015
Fund balance, beginning of year	<u>492,269</u>	<u>492,269</u>	<u>492,269</u>	<u> </u>
Fund balance, end of year	<u><u>\$ (82,165)</u></u>	<u><u>\$ 423,784</u></u>	<u><u>\$ 605,799</u></u>	<u><u>\$ 182,015</u></u>

See accompanying notes to financial statements.

CITY OF REEDLEY
 BUDGETARY COMPARISON SCHEDULE
 DEVELOPER IMPACT FEES FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive – (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Charges for services	\$ 1,220,042	\$ 1,208,375	\$ 390,134	\$ (818,241)
Interest	63,478	75,144	66,595	(8,549)
Other				
Intergovernmental				
Total revenue	<u>1,283,520</u>	<u>1,283,519</u>	<u>456,729</u>	<u>(826,790)</u>
Expenditures				
Current				
Community services	212,115	262,115		262,115
Public works	1,638,624	1,784,614	280,976	1,503,638
Debt service	100,000	100,000	305,255	(205,255)
Public safety	<u>138,612</u>	<u>238,612</u>	<u>36,546</u>	<u>202,066</u>
Total expenditures	<u>2,089,351</u>	<u>2,385,341</u>	<u>622,777</u>	<u>1,762,564</u>
Revenue over/(under) expenditures	(805,831)	(1,101,822)	(166,048)	935,774
Fund balance, beginning of year	<u>5,902,351</u>	<u>5,902,351</u>	<u>5,902,351</u>	
Fund balance, end of year	<u>\$ 5,096,520</u>	<u>\$ 4,800,529</u>	<u>\$ 5,736,303</u>	<u>\$ 935,774</u>

See accompanying notes to financial statements.

SANBORN & SANBORN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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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*

December 30, 2011

To the Honorable Mayor and City Council
City of Reedley, California

We have audited the financial statements of the City of Reedley as of and for the year ended June 30, 2011, and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Honorable City Council

December 30, 2011

Page Two

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

*Sanborn and Sanborn
Accountancy Corporation*

Certified Public Accountants

SANBORN & SANBORN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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

December 30, 2011

To the Honorable Mayor and City Council
City of Reedley, California

Compliance

We have audited the City of Reedley's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City'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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reedley'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's compliance with those requirements.

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

Internal Control over Compliance

The management of the City of Reedley 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'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

Honorable City Council

December 30, 2011

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effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

*Sanborn and Sanborn
Accountancy Corporation*

Certified Public Accountants

CITY OF REEDLEY
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2011

<u>Program Name</u>	<u>CFDA Number</u>	<u>Project Number</u>	<u>Revenue</u>	<u>Expenditures</u>
Department of Housing and Urban Development: (pass-through from County of Fresno, State of California – Title I of Housing and Community Development Act of 1974) Community Development Block Grant/Entitlement Grants				
	14.218	10-571	\$ 214,053	\$ 192,342
Department of Transportation: (pass-through from State of California) Local Agency State Agreement-ARRA				
		ESPLSTP 5216(025)	50,000	50,000
Department of Transportation: (pass-through from State of California) Local Agency State Agreement-ARRA				
		ESPLSTP 5216(039)	727,485	790,111
Department of Transportation: (pass-through from State of California) Airport Improvement Program				
	20.106	3-06-0196-10	689,927	697,065
Department of Transportation: (pass-through from State of California) Airport Improvement Program				
	20.106	3-06-0196-20	51,888	34,823
Department of Education: (pass-through from Fresno County Superintendent of Schools) Twenty-First Century Community Learning Centers (A)				
	84.287		138,384	143,405
Department of Education: (pass-through from Fresno County Superintendent of Schools) Save the Children				
			75,802	74,068
Department of Health and Human Services: (pass-through from Fresno-Madera Area Agency on Aging) Special Programs for Aging--Title III, Part C--Nutrition Services				
	93.045	11-0171	<u>14,238</u>	<u>14,238</u>
			<u>\$ 1,961,777</u>	<u>\$ 1,996,052</u>

Basis of Presentation:

The accompanying schedule of expenditures of federal financial assistance includes the federal grant activity of the City of Reedley and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF REEDLEY
SCHEDULE OF AUDITORS' RESULTS, FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

(1) Summary of Auditors' Results:

- (a) Type of report issued on the general purpose financial statements: Unqualified opinion.
- (b) Significant deficiencies in internal control were disclosed by the audit of the general purpose financial statements: No. Material weaknesses: No.
- (c) Noncompliance which is material to general purpose financial statements: No.
- (d) Significant deficiencies in internal control over major programs: No. Material weaknesses: No.
- (e) The type of report issued on compliance for major programs: Unqualified opinion.

No material weaknesses or significant deficiencies in internal control over compliance identified.

- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: No.
- (g) Major program: American Recovery and Reinvestment Act.
Airport Improvement Program
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Governmental Auditing Standards*: No findings reported.

(3) Findings and Questioned Costs Relating to Federal Awards: No findings or questioned costs.

CITY OF REEDLEY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

None