

# **CITY OF ORLAND**

## ***California***

---

### **Annual Financial Report June 30, 2011**

#### **Elected Officials**

##### ***City Council***

**Jim Paschall  
Wade Elliott  
Bruce Roundy  
Charles Gee  
Dennis Hoffman**

**Mayor  
Vice Mayor  
Member  
Member  
Member**

***City Clerk*  
Angela Crook**

***City Treasurer*  
Pam Otterson**

#### **Appointed Officials**

***City Manager*  
Paul Poczobut**

***Finance Director*  
Daryl Brock, CPA**

# CITY OF ORLAND

## Table of Contents

|   |     |       |
|---|-----|-------|
| <b>INDEPENDENT AUDITOR'S REPORT</b> .....   | 2-3 |       |
| <br><b>BASIC FINANCIAL STATEMENTS</b>   |     |       |
| <u>Government-wide Financial Statements</u>   |     |       |
| Statement of Net Assets .....   | 4   |       |
| Statement of Activities .....   | 5   |       |
| <br><u>Fund Financial Statements</u>  |     |       |
| Governmental Funds:   |     |       |
| Balance Sheet .....   | 6   |       |
| Reconciliation of the Governmental Funds Balance Sheet<br>to the Statement of Net Assets .....  | 7   |       |
| Statement of Revenue, Expenditures, and Change in Fund Balances .....   | 8   |       |
| Reconciliation of the Statement of Revenue, Expenditures, and Change<br>in Fund Balances of Governmental Funds to the Statement of Activities ..... | 9   |       |
| Proprietary Funds:  |     |       |
| Statement of Net Assets .....   | 10  |       |
| Statement of Revenue, Expenses, and Change in Net Assets .....  | 11  |       |
| Statement of Cash Flows .....   | 12  |       |
| <br><b>NOTES TO FINANCIAL STATEMENTS</b> .....  |     | 13-30 |
| <br><b>REQUIRED SUPPLEMENTARY INFORMATION</b>   |     |       |
| Note to Required Supplementary Information .....  | 31  |       |
| Budgetary Comparison Information - General Fund .....   | 32  |       |
| <br><b>OTHER SUPPLEMENTARY INFORMATION</b>  |     |       |
| Schedule of Funding Progress - Defined Benefit Pension Plan (unaudited) .....   | 33  |       |
| Combining Balance Sheet - Nonmajor Governmental Funds .....   | 34  |       |
| Combining Statement of Revenue, Expenditures, and Change in<br>Fund Balances - Nonmajor Governmental Funds .....                                    | 35  |       |

# MARCELLO & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

---

2701 Cottage Way, Suite 30 / Sacramento, California 95821

### INDEPENDENT AUDITOR'S REPORT

Honorable Mayor  
Members of the City Council  
City of Orland, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orland, California as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Orland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orland, California, 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 2, 2011, on our consideration of the City of Orland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *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, and budgetary comparison information on pages 31 through 32, be presented to supplement the basic financial statements. Such information, although not 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 historic 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, and other knowledge we obtained during our audit of the basic financial statements.

Honorable Mayor  
Members of the City Council  
City of Orland, California

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. The City of Orland has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orland's financial statements as a whole. The schedule of funding progress-defined benefit pension plan, and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedule of funding progress-defined benefit pension plan was provided to the City of Orland by the California Public Employees' Retirement System Actuarial Office and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Marcello & Company*

Certified Public Accountants  
Sacramento, California  
December 2, 2011

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF ORLAND**  
**Government-wide Financial Statements**  
**Statement of Net Assets**  
**June 30, 2011**

|   | Primary Government         |                             |                      |
|---|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                |
| <b>Assets</b>                                   |                            |                             |                      |
| Cash and investments                            | \$ 3,279,447               | \$ 385,576                  | \$ 3,665,023         |
| Receivables                                     | 670,161                    | 64,383                      | 734,544              |
| Prepaid expenses                                | 39,584                     | 93,420                      | 133,004              |
| Internal balances                               | (257,114)                  | 257,114                     | -                    |
| Notes receivable                                | 5,556,471                  | -                           | 5,556,471            |
| Capital assets not being depreciated            | 181,286                    | 8,580                       | 189,866              |
| Capital assets, net of depreciation             | 3,206,509                  | 2,185,186                   | 5,391,695            |
| Total Assets                                    | <u>12,676,344</u>          | <u>2,994,259</u>            | <u>15,670,603</u>    |
| <b>Liabilities</b>                              |                            |                             |                      |
| Accounts payable                                | 295,852                    | 16,466                      | 312,318              |
| Cash overdrafts                                 | 33,348                     | -                           | 33,348               |
| Accrued liabilities                             | 31,941                     | -                           | 31,941               |
| Deposits  | 26,914                     | 2,274                       | 29,188               |
| Deferred revenue                                | 19,519                     | -                           | 19,519               |
| Noncurrent liabilities:                         |                            |                             |                      |
| Due within one year                             | -                          | 43,814                      | 43,814               |
| Due in more than one year                       | -                          | 80,882                      | 80,882               |
| Compensated absences                            | 186,406                    | 86,822                      | 273,228              |
| Total Liabilities                               | <u>593,980</u>             | <u>230,258</u>              | <u>824,238</u>       |
| <b>Net Assets</b>                               |                            |                             |                      |
| Invested in capital assets, net of related debt | 3,387,795                  | 2,069,070                   | 5,456,865            |
| Unrestricted                                    | 8,694,569                  | 694,931                     | 9,389,500            |
| Total Net Assets                                | <u>\$ 12,082,364</u>       | <u>\$ 2,764,001</u>         | <u>\$ 14,846,365</u> |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Government-wide Financial Statements**  
**Statement of Activities**  
**Year Ended June 30, 2011**

| Functions/Programs              | Program Revenue    |                     |                                    | Net (Expense) Revenue and Change in Net Assets |                          |               |
|---------------------------------|--------------------|---------------------|------------------------------------|--|--------------------------|---------------|
|                                 | Operating Expenses | Charge for Services | Operating Grants and Contributions | Primary Government                             |                          |               |
|                                 |                    |                     |                                    | Governmental Activities                        | Business-type Activities | Total         |
| <b>Governmental Activities</b>  |                    |                     |                                    |  |                          |               |
| General government              | \$ 387,061         | \$ 158,949          | \$ 25,085                          | \$ (203,027)                                   | \$ -                     | \$ (203,027)  |
| Community development           | 3,825,789          | -                   | 5,767,540                          | 1,941,751                                      | -                        | 1,941,751     |
| Public safety                   | 1,999,086          | -                   | 383,975                            | (1,615,111)                                    | -                        | (1,615,111)   |
| Public works and streets        | 458,707            | -                   | 439,493                            | (19,214)                                       | -                        | (19,214)      |
| Library and arts                | 284,813            | 8,454               | 87,478                             | (188,881)                                      | -                        | (188,881)     |
| Parks and recreation            | 210,374            | -                   | 68,161                             | (142,213)                                      | -                        | (142,213)     |
| Capital outlay/projects         | 106,237            | 505,795             | -                                  | 1,272,027                                      | 872,469                  | 1,272,027     |
| Depreciation expense            | 172,514            | -                   | -                                  | (172,514)                                      | -                        | (172,514)     |
| Total governmental activities   | 7,444,581          | 673,198             | 6,771,732                          | 872,818  | 872,469                  | 872,818       |
| <b>Business-type Activities</b> |                    |                     |                                    |  |                          |               |
| Water                           | 773,408            | 759,189             | -                                  | -  | \$ (14,219)              | (14,219)      |
| Sewer                           | 555,044            | 569,215             | -                                  | -  | 14,171                   | 14,171        |
| Industrial sewer                | 59,197             | 55,408              | -                                  | -  | (3,789)                  | (3,789)       |
| Building inspection             | 184,958            | 156,679             | -                                  | -  | (28,279)                 | (28,279)      |
| Total business-type activities  | 1,572,607          | 1,540,491           | -                                  | -  | (32,116)                 | (32,116)      |
| Total primary government        | \$ 9,017,188       | \$ 2,213,689        | \$ 6,771,732                       | 872,818  | (32,116)                 | 840,702       |
| <b>General Revenue</b>          |                    |                     |                                    |  |                          |               |
| Property taxes                  |                    |                     |                                    | 809,391  | -                        | 809,391       |
| Sales tax                       |                    |                     |                                    | 747,728  | -                        | 747,728       |
| Franchise and TOT               |                    |                     |                                    | 152,603  | -                        | 152,603       |
| Motor vehicle in-lieu           |                    |                     |                                    | 607,311  | -                        | 607,311       |
| Business licenses & fees        |                    |                     |                                    | 94,502   | -                        | 94,502        |
| Use of money and property       |                    |                     |                                    | 51,692   | 3,201                    | 54,893        |
| Other revenue                   |                    |                     |                                    | 187,599  | -                        | 187,599       |
| Total general revenue           |                    |                     |                                    | 2,650,826                                      | 3,201                    | 2,654,027     |
| <b>Change in Net Assets</b>     |                    |                     |                                    | 3,523,644                                      | (28,915)                 | 3,494,729     |
| Net Assets - beginning          |                    |                     |                                    | 8,558,720                                      | 2,792,916                | 11,351,636    |
| Net Assets - end of year        |                    |                     |                                    | \$ 12,082,364                                  | \$ 2,764,001             | \$ 14,846,365 |

The accompanying notes are an integral part of these financial statements

**FUND FINANCIAL STATEMENTS**

**CITY OF ORLAND**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

| Assets               | General      |              | Development   |               | 07-HOME-3902  |               | 08-HOME-4730  |               | 08-STBG-4874  |               | 04-HOME-4876   |              | Post 1992    |              | Other |  | Totals |
|----------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|--------------|--------------|--------------|-------|--|--------|
|                      | Fund         | Impact Fees  | Housing Grant | Housing Grants | Funds        | Governmental |              |       |  |        |
| Cash and investments | \$ 197,439   | \$ 1,934,801 | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          | \$ 75,791      | \$ 1,031,187 | \$ -         | \$ 3,279,447 |       |  |        |
| Receivables          | 224,265      | -            | 12,911        | -             | 140,627       | -             | -             | -             | -             | -             | -              | 292,358      | -            | 670,161      |       |  |        |
| Internal loans       | 681,868      | -            | -             | -             | -             | -             | -             | -             | -             | -             | -              | -            | -            | 681,868      |       |  |        |
| Prepaid expense      | 39,584       | -            | -             | -             | -             | -             | -             | -             | -             | -             | -              | -            | -            | 39,584       |       |  |        |
| Notes receivable     | -            | -            | 1,900,000     | 458,000       | -             | -             | -             | -             | -             | -             | 768,165        | 930,306      | -            | 5,556,471    |       |  |        |
| Total assets         | \$ 1,143,156 | \$ 1,934,801 | \$ 1,912,911  | \$ 458,000    | \$ 140,627    | \$ 1,540,229  | \$ 843,956    | \$ 2,253,851  | \$ 10,227,531 |               |                |              |              |              |       |  |        |

| Liabilities         | Accounts payable | Accrued liabilities | Deposits  | Deferred revenue | Internal loans | Total liabilities |
|---------------------|------------------|---------------------|-----------|------------------|----------------|-------------------|
| Accounts payable    | \$ 39,069        | \$ 211,455          | \$ -      | \$ -             | \$ -           | \$ 78,199         |
| Accrued liabilities | 31,941           | -                   | -         | -                | -              | 31,941            |
| Deposits            | 26,914           | -                   | -         | -                | -              | 26,914            |
| Deferred revenue    | -                | -                   | 1,900,000 | 458,000          | -              | 931,119           |
| Internal loans      | 474,535          | -                   | 12,911    | -                | 140,152        | 311,386           |
| Total liabilities   | 572,459          | 211,455             | 1,912,911 | 458,000          | 140,627        | 1,320,704         |

| Fund Balances                       | Nonspendable | Restricted   | Committed    | Assigned   | Unassigned | Total fund balances | Total liabilities and fund balances |
|-------------------------------------|--------------|--------------|--------------|------------|------------|---------------------|-------------------------------------|
| Nonspendable                        | -            | -            | -            | -          | -          | -                   | 80,000                              |
| Restricted                          | -            | 1,723,346    | -            | -          | -          | 57,085              | 2,673,807                           |
| Committed                           | -            | -            | -            | -          | -          | -                   | -                                   |
| Assigned                            | -            | -            | -            | -          | -          | -                   | -                                   |
| Unassigned                          | 570,697      | -            | -            | -          | -          | 570,697             | 570,697                             |
| Total fund balances                 | 570,697      | 1,723,346    | -            | -          | -          | 933,147             | 3,324,504                           |
| Total liabilities and fund balances | \$ 1,143,156 | \$ 1,934,801 | \$ 1,912,911 | \$ 458,000 | \$ 140,627 | \$ 843,956          | \$ 10,227,531                       |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2011**

Total Fund Balances - Governmental Funds (page 6) \$ 3,324,504

Amounts reported for governmental activities in the statement of net assets are different because of the following:

**Capital Assets**

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. This is the amount of total capital assets net of accumulated depreciation.

3,387,795

**Deferred Revenue**

Notes receivable from grant programs related to housing are recorded on the governmental funds balance sheet and offset with a deferred revenue liability account. However on the statement of net assets, grant revenue is recognized when earned, received, or all eligibility requirements have been met. This is the amount of cumulative grant revenue used for housing program loans.

5,556,471

**Long Term Obligations**

Long term liabilities are not due and payable in the current period and therefore not reported in the governmental funds balance sheet. This is the amount of accrued compensated absences at year end.

(186,406)

**Total Net Assets - Governmental Activities (page 4)**

\$ 12,082,364

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

CITY OF ORLAND  
Statement of Revenue, Expenditures, and Change in Fund Balances  
Governmental Funds  
Year Ended June 30, 2011

|                                   | General Fund | Development Impact Fees | 07-HOME-3902 Housing Grant | 08-HOME-4730 Housing Grant | 08-STBG-4874 Housing Grant | 04-HOME-4876 Housing Grant | Post 1992 Grants | Other              |                    | Totals       |
|-----------------------------------|--------------|-------------------------|----------------------------|----------------------------|----------------------------|----------------------------|------------------|--------------------|--------------------|--------------|
|                                   |              |                         |                            |                            |                            |                            |                  | Governmental Funds | Governmental Funds |              |
| <b>Revenue</b>                    |              |                         |                            |                            |                            |                            |                  |                    |                    |              |
| Taxes and assessments             | \$ 2,306,416 | \$ -                    | \$ -                       | \$ -                       | \$ -                       | \$ -                       | \$ -             | \$ -               | \$ -               | \$ 2,306,416 |
| Fees and fines                    | 94,502       | -                       | -                          | -                          | -                          | -                          | -                | -                  | -                  | 94,502       |
| Intergovernmental                 | 110,260      | -                       | 1,934,076                  | -                          | 872,469                    | -                          | -                | 1,387,183          | -                  | 4,303,988    |
| Charge for services               | 146,871      | 505,795                 | -                          | -                          | -                          | -                          | -                | 20,532             | -                  | 673,198      |
| Use of money and property         | 42,016       | 4,372                   | -                          | -                          | -                          | -                          | 288              | 5,011              | -                  | 51,687       |
| Other revenue                     | 168,449      | -                       | -                          | -                          | -                          | -                          | 28,379           | 78,595             | -                  | 275,423      |
| Total revenue                     | 2,868,514    | 510,167                 | 1,934,076                  | -                          | 872,469                    | -                          | 28,667           | 1,491,321          | -                  | 7,705,214    |
| <b>Expenditures</b>               |              |                         |                            |                            |                            |                            |                  |                    |                    |              |
| Current:                          |              |                         |                            |                            |                            |                            |                  |                    |                    |              |
| General government                | 407,240      | -                       | -                          | -                          | -                          | -                          | -                | -                  | -                  | 407,240      |
| Community development             | 146,929      | 233,909                 | 1,934,076                  | 11,064                     | 921,220                    | -                          | 558              | 578,033            | -                  | 3,825,789    |
| Public safety                     | 1,633,154    | 54,472                  | -                          | -                          | -                          | -                          | -                | 310,698            | -                  | 1,998,324    |
| Public works and streets          | 157,986      | 213,477                 | -                          | -                          | -                          | -                          | -                | 546,667            | -                  | 918,130      |
| Library and Arts                  | 251,614      | -                       | -                          | -                          | -                          | -                          | -                | 33,199             | -                  | 284,813      |
| Parks and recreation              | 280,374      | -                       | -                          | -                          | -                          | -                          | -                | -                  | -                  | 280,374      |
| Capital outlay                    | -            | -                       | -                          | -                          | -                          | -                          | -                | 106,237            | -                  | 106,237      |
| Total expenditures                | 2,877,297    | 501,858                 | 1,934,076                  | 11,064                     | 921,220                    | -                          | 558              | 1,574,834          | -                  | 7,820,907    |
| Revenue over (under) Expenditures | (8,783)      | 8,309                   | -                          | (11,064)                   | (48,751)                   | -                          | 28,109           | (83,513)           | -                  | (115,693)    |
| Transfers in (out)                | (403)        | (1,949)                 | -                          | 11,064                     | 48,751                     | -                          | (11,042)         | (46,421)           | -                  | -            |
| <b>Change in Fund Balances</b>    | (9,186)      | 6,360                   | -                          | -                          | -                          | -                          | 17,067           | (129,934)          | -                  | (115,693)    |
| Fund Balances - beginning         | 579,883      | 1,716,986               | -                          | -                          | -                          | 40,229                     | 40,018           | 1,063,081          | -                  | 3,440,197    |
| Fund Balances - end of year       | \$ 570,697   | \$ 1,723,346            | \$ -                       | \$ -                       | \$ -                       | \$ 40,229                  | \$ 57,085        | \$ 933,147         | \$ -               | \$ 3,324,504 |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Reconciliation of the Statement of Revenue, Expenditures, and Change in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2011**

Change in Fund Balances - Governmental Funds (page 8) \$ (115,693)

Amounts reported for governmental activities in the statement of activities are different because of the following:

**Capital Assets**

Government funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense for the year

(172,514)

Capital expenditures reclassified to capital assets subject to future depreciation

580,214

**Deferred Revenue**

Government funds report nonexchange grant transactions loaned to individuals and nonprofit organizations as deferred revenue until the loans are repaid. In the statement of activities, the grants are recognized as revenue when earned. This amount represents the recognized current year grant revenue.

3,263,011

**Long Term Obligations**

Payment of long term obligations are an expenditure in the governmental funds financial statements, but the payment reduces long term liabilities in the statement of net assets. This is the amount of increase in compensated absences accrued at year end.

(31,374)

**Change in Net Assets - Governmental Activities (page 5)**

\$ 3,523,644

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

**CITY OF ORLAND**  
**Proprietary Funds**  
**Statements of Net Assets**  
**June 30, 2011**

| Assets  | Business-type Activities |            |                  |                     | Total Enterprise Funds |
|---|--------------------------|------------|------------------|---------------------|------------------------|
|   | Water                    | Sewer      | Industrial Sewer | Building Inspection |                        |
| Current assets:                                   |                          |            |                  |                     |                        |
| Cash and investments                              | \$ 324,070               | \$ -       | \$ 61,231        | \$ 275              | \$ 385,576             |
| Receivables                                       | 36,718                   | 27,665     | -                | -                   | 64,383                 |
| Internal loans                                    | 474,535                  | -          | -                | -                   | 474,535                |
| Prepaid expenses                                  | 61,187                   | 31,656     | 577              | -                   | 93,420                 |
| Total current assets                              | 896,510                  | 59,321     | 61,808           | 275                 | 1,017,914              |
| Noncurrent assets:                                |                          |            |                  |                     |                        |
| Capital assets not being depreciated              | -                        | 8,580      | -                | -                   | 8,580                  |
| Capital assets, net of depreciation               | 938,897                  | 1,022,499  | 213,746          | 10,044              | 2,185,186              |
| Total noncurrent assets                           | 938,897                  | 1,031,079  | 213,746          | 10,044              | 2,193,766              |
| Total assets                                      | 1,835,407                | 1,090,400  | 275,554          | 10,319              | 3,211,680              |
| <b>Liabilities</b>                                |                          |            |                  |                     |                        |
| Current liabilities:                              |                          |            |                  |                     |                        |
| Accounts payable                                  | 15,346                   | 659        | 202              | 259                 | 16,466                 |
| Customer deposits                                 | 1,500                    | -          | 774              | -                   | 2,274                  |
| Internal loans                                    | -                        | 47,372     | -                | 170,049             | 217,421                |
| Total current liabilities                         | 16,846                   | 48,031     | 976              | 170,308             | 236,161                |
| Noncurrent liabilities:                           |                          |            |                  |                     |                        |
| Due within one year                               | 29,224                   | 14,590     | -                | -                   | 43,814                 |
| Due in more than one year                         | 53,947                   | 26,935     | -                | -                   | 80,882                 |
| Compensated absences                              | 41,954                   | 37,759     | 4,195            | 2,914               | 86,822                 |
| Total noncurrent liabilities                      | 125,125                  | 79,284     | 4,195            | 2,914               | 211,518                |
| Total liabilities                                 | 141,971                  | 127,315    | 5,171            | 173,222             | 447,679                |
| <b>Net Assets</b>                                 |                          |            |                  |                     |                        |
| Investment in capital assets, net of related debt | 855,726                  | 989,554    | 213,746          | 10,044              | 2,069,070              |
| Unrestricted                                      | 837,710                  | (26,469)   | 56,637           | (172,947)           | 694,931                |
| Total net assets                                  | \$ 1,693,436             | \$ 963,085 | \$ 270,383       | \$ (162,903)        | \$ 2,764,001           |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Proprietary Funds**  
**Statement of Revenue, Expenses, and Change in Net Assets**  
**Year Ended June 30, 2011**

|  | Business-type Activities |                   |                   |                     | Total Enterprise Funds |
|--|--------------------------|-------------------|-------------------|---------------------|------------------------|
|  | Water                    | Sewer             | Industrial Sewer  | Building Inspection |                        |
| <b>Operating Revenue</b>               |                          |                   |                   |                     |                        |
| Charge for services                    | \$ 759,189               | \$ 569,215        | \$ 55,408         | \$ 156,679          | \$ 1,540,491           |
| Total operating revenue                | <u>759,189</u>           | <u>569,215</u>    | <u>55,408</u>     | <u>156,679</u>      | <u>1,540,491</u>       |
| <b>Operating Expenses</b>              |                          |                   |                   |                     |                        |
| Personnel costs                        | 367,800                  | 322,622           | 30,613            | 106,129             | 827,164                |
| Maintenance and operations             | 269,183                  | 132,093           | 7,790             | 53,139              | 462,205                |
| Administrative allocation              | 79,168                   | 54,610            | 6,079             | 22,316              | 162,173                |
| Depreciation                           | 53,242                   | 43,666            | 14,715            | 3,374               | 114,997                |
| Total operating expenditures           | <u>769,393</u>           | <u>552,991</u>    | <u>59,197</u>     | <u>184,958</u>      | <u>1,566,539</u>       |
| <b>Operating Income (Loss)</b>         | <u>(10,204)</u>          | <u>16,224</u>     | <u>(3,789)</u>    | <u>(28,279)</u>     | <u>(26,048)</u>        |
| <b>Nonoperating Revenue (Expenses)</b> |                          |                   |                   |                     |                        |
| Investment earnings                    | 3,201                    | -                 | -                 | -                   | 3,201                  |
| Interest expense                       | (4,015)                  | (2,053)           | -                 | -                   | (6,068)                |
| Total nonoperating revenue (expenses)  | <u>(814)</u>             | <u>(2,053)</u>    | <u>-</u>          | <u>-</u>            | <u>(2,867)</u>         |
| <b>Change in Net Assets</b>            | <u>(11,018)</u>          | <u>14,171</u>     | <u>(3,789)</u>    | <u>(28,279)</u>     | <u>(28,915)</u>        |
| Net Assets - beginning                 | 1,704,454                | 948,914           | 274,172           | (134,624)           | 2,792,916              |
| Net Assets - end of year               | <u>\$ 1,693,436</u>      | <u>\$ 963,085</u> | <u>\$ 270,383</u> | <u>\$ (162,903)</u> | <u>\$ 2,764,001</u>    |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2011**

**CASH FLOWS PROVIDED BY (USED FOR)**

|   | Business-type Activities |            |                  |                     | Total Enterprise Funds |
|---|--------------------------|------------|------------------|---------------------|------------------------|
|   | Water                    | Sewer      | Industrial Sewer | Building Inspection |                        |
| <b>Operating Activities</b>                                 |                          |            |                  |                     |                        |
| Receipts from customers                                     | \$ 747,032               | \$ 563,438 | \$ 55,408        | \$ 156,679          | \$ 1,522,557           |
| Payments to suppliers and employees                         | (725,056)                | (507,688)  | (44,492)         | (188,419)           | (1,465,655)            |
| Net cash provided (used)                                    | 21,976                   | 55,750     | 10,916           | (31,740)            | 56,902                 |
| <b>Capital and Related Financing Activities</b>             |                          |            |                  |                     |                        |
| Internal loan proceeds (repayments)                         | (2,314)                  | (14,138)   | -                | 32,015              | 15,563                 |
| Repayment of loan obligations                               | (25,285)                 | (12,643)   | -                | -                   | (37,928)               |
| Interest paid on debt obligations                           | (4,015)                  | (2,053)    | -                | -                   | (6,068)                |
| Purchase of capital assets                                  | (28,270)                 | (26,916)   | -                | -                   | (55,186)               |
| Net cash provided (used)                                    | (59,884)                 | (55,750)   | -                | 32,015              | (83,619)               |
| <b>Investing Activities</b>                                 |                          |            |                  |                     |                        |
| Investment earnings   | 3,201                    | -          | -                | -                   | 3,201                  |
| Net cash provided (used)                                    | 3,201                    | -          | -                | -                   | 3,201                  |
| Net Increase (Decrease) in Cash and Investments - beginning | (34,707)                 | -          | 10,916           | 275                 | (23,516)               |
| Cash and Investments - end of year                          | 358,777                  | -          | 50,315           | -                   | 409,092                |
|   | \$ 324,070               | \$ -       | \$ 61,231        | \$ 275              | \$ 385,576             |
| <b>Operating Activities Analysis</b>                        |                          |            |                  |                     |                        |
| Operating Income (Loss) - page 11                           | \$ (10,204)              | \$ 16,224  | \$ (3,789)       | \$ (28,279)         | \$ (26,048)            |
| Reconciliation adjustments:                                 |                          |            |                  |                     |                        |
| Depreciation, a noncash expense                             | 53,242                   | 43,666     | 14,715           | 3,374               | 114,997                |
| (Increase) decrease in receivables/prepays                  | (2,314)                  | (5,777)    | (577)            | -                   | (8,668)                |
| Increase (decrease) in payables                             | (18,748)                 | 1,637      | 567              | (6,835)             | (23,379)               |
| Net cash provided (used)                                    | \$ 21,976                | \$ 55,750  | \$ 10,916        | \$ (31,740)         | \$ 56,902              |

The accompanying notes are an integral part of these financial statements

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the City as follows:

- Note 1 - Defining the Reporting Entity
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - Stewardship, Compliance, and Accountability
- Note 4 - Cash and Investments
- Note 5 - Interfund Transactions
- Note 6 - Receivables
- Note 7 - Subsequent Events
- Note 8 - Capital Assets
- Note 9 - Long-term Obligations
- Note 10 - Defined Benefit Pension Plan
- Note 11 - Risk Management
- Note 12 - Contingent Liabilities
- Note 13 - Net Assets and Fund Balance Designations
- Note 14 - New Pronouncements

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 1 - Defining the Reporting Entity**

The City of Orland (the City) was incorporated under the laws of the State of California. The City operates under a Council-Manager form of government. The City provides a full range of municipal services to its citizens including public safety, public works, planning and building regulation, recreation and parks, water and sewer services.

The financial statements of the City include those of separately administered organizations that are controlled by, or dependent on, the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

*Orland Volunteer Fire Department*

The Orland Volunteer Fire Department is included in these financial statements because the governing body exercises oversight responsibility, and the Orland Volunteer Fire Department is not fiscally independent of the City of Orland.

Although the component unit is legally separate from the City, it is reported on a blended basis as part of the primary government because its board consists of members of the City Council. The component unit's financial statements may be obtained from the City.

**Note 2 - Summary of Significant Accounting Policies**

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 is effective in three phases based on the public institution's total annual revenues in the fiscal year ending after June 15, 1999. The City adopted the provisions of this statement along with GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus (an amendment to GASB Statements No. 21 and No. 34)*, as of July 1, 2003. In June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, to reevaluate certain existing disclosure requirements in the context of reporting model statement No. 34. The City adopted the provisions of Statement No. 38 as of July 1, 2003.

The Financial Statement presentation, required by GASB Statements No. 34, 37, and 38 provides a comprehensive, entity-wide perspective of the City's assets, liabilities, and replaces the fund-group perspective previously required. The City now follows the "primary government's governmental activities" reporting requirements of GASB No. 34 that provides a comprehensive one-line look at the City's financial activities.

Government-wide Financial Statements

The government-wide financial statement (i.e., the statement of net assets and the statement of activities) reports information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributors that are restricted to meeting the operational or capital requirements of a particular function or segment taxes, and other items not properly included among program revenue, are reported instead as general revenue.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 2 - Summary of Significant Accounting Policies**

Expenses reported for functional activities include allocated indirect expenses. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

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

- Total assets, liabilities, revenue, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 10% of the corresponding total for all funds of that category or type.
- Total assets, liabilities, revenue, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.
- The government has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Fund Types - Governmental funds are the funds through which most general government functions typically are financed. The City maintains the following fund types:

*General Fund* - the general fund accounts for all unrestricted resources except those required to be accounted for in another fund.

*Special Revenue Funds* - these funds are used to account for the proceeds of specific revenue resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Funds* - these funds are used to account for the accumulation of resources for, and the repayment of, general long-term debt obligation payments for principal, interest and related costs. This fund type is currently not in use by the City.

*Capital Projects Fund* - these funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. This fund type is currently not in use by the City.

Proprietary Fund Types - Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is upon determination of net income and capital maintenance. The following are the City's proprietary fund types:

*Enterprise Funds* - these funds are established to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Water, sewer, industrial sewer, and building inspection services are reported as enterprise funds.

*Internal Service Funds* - these funds are established to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, and to other government units on a cost reimbursement basis. This fund type is currently not in use by the City.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

***Note 2 - Summary of Significant Accounting Policies***

Fiduciary Fund Types - Fiduciary funds account for assets held by the City as a trustee or agent for individuals, private organizations, and other units of governments. Funds included in this category are as follows:

*Expendable Trust Funds* – these funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

*Agency Funds* – these funds account for assets held by the City as trustee or agent for individuals, private organizations, assessment districts, or other governmental units and/or other funds.

Fiduciary fund types are currently not in use by the City.

The Major Funds are as follows:

*General Fund* - this 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.

*Development Impact Fees* - this fund is used to account for fees collected from builders and real estate developers for the impact of creating additional burdens and charges to various city departments for additional police, fire, parks, recreation, public works, streets, and administrative services as an end result of their projects.

*Housing Grant Funds* - these funds are used to account for housing and capital improvement grants.

Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenue and expenditures or expenses *are recognized* in the accounts and reported in the financial statements. Basis of accounting relates to the *timing of measurement* made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Revenue is recognized when it becomes both measurable and available to finance the expenditures of the current period (susceptible to accrual).

Major revenue sources susceptible to accrual include substantially all property taxes, taxpayer-assessed taxes (such as sales, use, utility users, business license, transient occupancy, franchise fees, and gas taxes), interest, special assessments levied, state and federal grants, and charges for current services. Revenue from licenses, permits, fines and forfeits are recorded as received. Expenditures are recorded when the related fund liability is incurred.

All Governmental Funds are accounted for using a current financial resources *measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of "available spendable resources" during a period.

The government-wide financial statement is accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

***Note 2 - Summary of Significant Accounting Policies***

Private sector standards of accounting and financial reporting (FASB Pronouncements) issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

Use of Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires the use of 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 revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Investments

Cash and investments held in the City's investment pool are reported as cash and investments since "funds" can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents if they are liquid. Investments are stated at fair value.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments either: (1) with a maturity of three months or less when purchased to be cash equivalents or (2) collected within sixty days of the fiscal year end. Cash and cash equivalents are reported under the caption "cash and investments" on the statement of net assets.

Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at fiscal year end are reported as internal loans and consist of either (1) "due to/from other funds" (amounts due within one year), (2) "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or (3) "loans to/from other funds" (long-term lending/borrowing transactions as evidenced by loan agreements). Internal loans are offset by a fund balance reserve in the applicable governmental funds to indicate they are not available for appropriation, and are not expendable available financial resources.

Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available. The City considers these taxes available if they are received during the period when settlement of prior fiscal year accounts payable and payroll charges normally occur.

Grants, entitlements or shared revenue is recorded as receivables and revenues in the general and special revenue funds when they are received or susceptible to accrual.

Economic and Community Development Loans

The majority of these loans are deferred repayment loans under the City's housing and economic development programs. The program consists of long-term deferred payment loans of grant funds from the State, which were reported as grant revenues in the year received, and expenditures in the year the loans were made. A deferred loan is required to be repaid in full only if the secured property is sold or transferred. Prior to the sale or transfer, no payment is required. Principal and interest payments which are receivable at year end are offset by an equal amount of deferred revenue. Such payments will be recognized as revenue when received.

Prepaid Expenses

The purchase of materials and supplies in the water and sewer enterprise funds that have not been consumed as of year end are recorded as prepaid expenses, and are charged to expenditures when consumed.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 2 - Summary of Significant Accounting Policies**

Allowance for Doubtful Accounts

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Capital Assets

Capital assets used in governmental fund type operations are accounted for on the statement of net assets. Public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, such as roads, sidewalks and bridges are capitalized prospectively starting July 1, 2003 in accordance with GASB Statement No. 34. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Capital outlay is recorded as *expenditures* of the general and special revenue funds and as *assets* in the government-wide financial statements to the extent the City's capitalization threshold is met. Donated assets are recorded at estimated fair value at the date of donation.

Property, plant and equipment acquired for proprietary funds are capitalized in the respective fund to which it applies and are stated at their cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets which range from 5 to 20 years for equipment, machinery and vehicles, and 20 to 50 years for buildings and improvements. Land, art and treasures are not considered exhaustible, therefore are not being depreciated.

Compensated Absences

Compensated absences represent the vested portion of accumulated vacation and sick leave. The City's method of calculating the liability is in accordance with GASB Statement No. 16, except that additional accruals for salary-related payments associated with the payment of compensated absences, for example, the employer's share of pension contributions, social security and medicare taxes, have not been accrued as that amount is not considered significant or material to the financial statements taken as a whole. Eligible employees, depending upon their position and length of service, can accumulate between two to four weeks vacation. The City accrues a liability for compensated absences which meet the following criteria:

- The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered
- The obligation relates to rights that vest or accumulate
- Payment of the compensation is probable
- The amount can be reasonably estimated

Deferred Revenue

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Long-term Obligations

In the government-wide financial statements, long-term debt and such obligations are reported as liabilities in the applicable column on the statement of net assets. Compensated absences are considered due after one year.

Net Assets and Fund Balances

The City's net assets are classified as follows on the government-wide statement of net assets:

- Invested in capital assets, net of related debt - represents the City's total investment in capital assets reduced by any outstanding debt used to acquire these assets.
- Restricted net assets - includes resources that the City is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 2 - Summary of Significant Accounting Policies (concluded)**

- Unrestricted net assets - represents resources derived from sources without spending restrictions, are used for transactions relating the general operations of the City, and may be used at the discretion of those charged with governance to meet current expenses or obligations for any purpose.

Fund balance designations are classified on the governmental funds balance sheet as follows:

- Nonspendable – amounts that cannot be spent because they are either (a) legally or contractually required to be maintained intact or (b), not in spendable form such as long term notes receivable.
- Restricted - amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.
- Committed - amounts that can be used only for the *specific purposes* determined by a formal action of the City Council, to establish, modify or rescind a fund balance commitment.
- Assigned - amounts that are constrained by the government's *intent* to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, as determined by a formal action or policy of the City Council or its appointed official.
- Unassigned - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

*Property Valuations* - are established by the Glenn County Assessor for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII-A of the State Constitution (Proposition 13, adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

*Tax Levies* - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

*Tax Levy Dates* - are attached annually on January 1, proceeding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

*Tax Collections* - are the responsibility of the county's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments. The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments. The City has elected to receive the City's portion of the property taxes from the county under the county Teeter Bill program. Under this program, the City receives 100% of the City's share of the levied property taxes in periodic payments with the county assuming responsibility for the delinquencies.

*Property Tax Administration Fees* - the State of California FY 90-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes.

*Tax Levy Apportionments* - due to the nature of the City-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county's auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three fiscal years prior to fiscal year 1979.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 3 - Stewardship, Compliance, and Accountability**

Budgetary Information

The City follows these procedures annually in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at special scheduled sessions which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is adopted through the passage of a resolution.
4. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during the fiscal year. The City Manager may authorize transfers from one object or purpose to another within the same department, and between departments within the General Fund. All appropriations lapse at year end.

Revenue Limitations Imposed By California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

**Note 4 - Cash and Investments**

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

|  |                     |
|--|---------------------|
| Statement of Net Assets                        |                     |
| Cash and investments, net of overdrafts        | <u>\$ 3,631,675</u> |
| Cash and Investments consist of the following: |                     |
| Deposits with financial institutions:          |                     |
| Checking accounts                              | \$ 722,080          |
| Savings accounts                               | 279,573             |
| Money market mutual funds                      | 2,624,588           |
| Investment with Local Agency Investment Fund   | <u>5,434</u>        |
|  | <u>\$ 3,631,675</u> |

Collateral and Categorization Requirements

At fiscal year end, the City's carrying amount of demand deposits was \$2,643,165 and the bank account balances were \$2,925,344. The difference of \$282,179 represented outstanding checks and deposits in transit. Of the total bank deposit balances, \$520,242 was insured by the Federal Depository Insurance Corporation (FDIC) and \$2,405,102 was collateralized in accordance with California Government Code Section 53600 – 53609.

Investment Policy

The table below identifies the investment types that are authorized under provisions of the City's investment policy adopted September 7, 2005, and in accordance with Section 53601 of the California Government Code. The table also identifies certain provisions of the investment policy that address interest rate risk, credit risk, and concentration of credit risk.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 4 - Cash and Investments (continued)**

| <u>Authorized Investment Type</u>  | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> | <u>Minimum Rating</u> |
|------------------------------------|-------------------------|--|---|-----------------------|
| Certificates of Deposit            | 5 years                 | None                                   | None                                    | None                  |
| Negotiable Certificates of Deposit | 5 years                 | 30%                                    | None                                    | None                  |
| Local Agency Investment Fund       | N/A                     | None                                   | \$5m                                    | None                  |
| Passbook Savings                   | N/A                     | None                                   | None                                    | None                  |
| U.S. Government Securities         | 5 years                 | None                                   | None                                    | None                  |
| U.S. Treasury Securities           | 5 years                 | None                                   | None                                    | None                  |
| Bankers Acceptances                | 270 days                | 40%                                    | None                                    | None                  |
| Commercial Paper                   | 180 days                | 30%                                    | None                                    | None                  |
| Medium Term Notes                  | 5 years                 | 30%                                    | None                                    | None                  |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Orland manages its exposure to interest rate risk is by investing in due on demand and short-term investments; which provides cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy limits credit risk by requiring compliance with the California Government Code for investment of public funds, as described in detail above.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any single issuer beyond that stipulated by the California government code. Investments in any one issuer that represent 5% or more of total investments at June 30, 2010 are as follows:

| <u>Investment Type</u>     | <u>Fair Value</u> | <u>Maturity</u> | <u>Yield</u> | <u>Concentration</u> |
|----------------------------|-------------------|-----------------|--------------|----------------------|
| Umpqua Bank - checking     | \$ 722,080        | on demand       | 0.10%        | 20%                  |
| Bank of America - savings  | 279,573           | on demand       | 0.50%        | 8%                   |
| Umpqua Bank - money market | 1,614,072         | on demand       | 0.49%        | 44%                  |
| Met-Life Securities:       |                   |                 |              |                      |
| certificates of deposit    | 731,393           | 31.5 months     | 3.72%        | 20%                  |
| mutual funds               | 250,496           | on demand       | 2.64%        | 7%                   |
| money market funds         | 21,104            | on demand       | 1.17%        | 1%                   |

Custodial Credit Risk

The credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California government code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 4 - Cash and Investments (concluded)**

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2011, the City had \$2,405,102 in financial institutions that was not covered by the FDIC, but was covered by collateralized securities of the financial institutions where the deposits were maintained.

The credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California government code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Participation in an External Investment Pool

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute, and is chaired by the State Treasurer who is responsible for the day to day administration of LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool.

The State Treasurer determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. As of June 30, 2011, the City's investment in LAIF was \$5,434. Investment earnings for the quarter ended June 30, 2011 was 0.48%. The total amount invested by all public agencies at that date was \$23.9 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2011 had a balance of \$66.4 billion. Financial Statements of LAIF and PMIA may be obtained from the California Treasurer's web site at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

**Note 5 - Interfund Transactions**

The following summarizes internal loans. During the year, several funds did not have adequate cash for operations; consequently other funds were able to provide short-term loans for working capital requirements. These balances have been eliminated in the government wide statements and are expected to be repaid within the next fiscal year.

| <u>Due from Other Funds / Receivables</u> |              |
|---|--------------|
| General fund                              | \$ 563,107   |
| Water fund                                | 472,221      |
|   | \$ 1,035,328 |
| <br><u>Due to Other Funds / Payables</u>  |              |
| General fund                              | \$ 472,221   |
| Sewer fund                                | 61,510       |
| Building inspection fund                  | 138,034      |
| Centennial celebration fund               | 2,246        |
| Police dept grant funds                   | 23,430       |
| economic and block grant funds            | 337,887      |
|   | \$ 1,035,328 |

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 6 - Receivables**

Receivables on the statement of net assets consist of the following:

|   |                   |
|---|-------------------|
| Governmental Activities:                |                   |
| Property taxes                          | \$ 11,413         |
| Sales taxes                             | 124,611           |
| State - VLF                             | 19,234            |
| State - other                           | 5,438             |
| County of Glenn                         | 11,579            |
| City of Willows                         | 14,670            |
| Engineer fees from developers           | 15,417            |
| Franchise and transient occupancy taxes | 21,892            |
| Other income                            | 199,477           |
| Grant reimbursements                    | 246,430           |
|   | <u>\$ 670,161</u> |
|   |                   |
| Business-type Activities:               |                   |
| Water utility customers                 | \$ 36,718         |
| Sewer utility customers                 | 27,665            |
|   | <u>\$ 64,383</u>  |

Notes receivable in the amount of \$5,556,471 consists of deferred repayment loans provided under the City housing and economic development department's affordable housing purchase and rehabilitation grant award programs. The loans are collateralized by deeds of trust on the purchased or improved properties. Repayment terms vary from 15 to 30 years. Some of the loans provide for accrued interest forgiveness under pre-determined contract guidelines.

Developer impact fees receivable in the amount of \$120,000 are under negotiation as to payment, which are not currently recorded in these financial statements.

**Note 7 - Subsequent Events**

The management of the City has reviewed the results of operations for the period from its year end June 30, 2011 through December 29, 2011, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as follows.

On October 1, 2011, the Orland City Council approved the issuance of taxable pension obligation bonds to repay both CalPERS Side Fund obligations, currently being amortized over 6 and 14 years at an interest rate of 7.75%. The principal amount of the new bond issue is \$2,398,000 at 4.50% per annum, fully amortized over eleven years, maturing June 22, 2022. Approximately \$288,000 in interest costs are expected to be saved through this action.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 8 - Capital Assets**

**Governmental-type capital asset activity for the year was as follows:**

| <u>Governmental Activities</u>  | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Completions</u> | <u>Retirements/<br/>Adjustments</u> | <u>Ending<br/>Balance</u> |
|---------------------------------|------------------------------|-----------------------------------|-------------------------------------|---------------------------|
| <i>Non-depreciable Assets</i>   |                              |                                   |                                     |                           |
| Land                            | \$ 181,286                   | \$ -                              | \$ -                                | \$ 181,286                |
| <i>Depreciable Assets:</i>      |                              |                                   |                                     |                           |
| Buildings and improvements      | 2,635,963                    | 565,292                           | -                                   | 3,201,255                 |
| Vehicles and equipment          | 972,153                      | 14,922                            | -                                   | 987,075                   |
|                                 | 3,608,116                    | 580,214                           | -                                   | 4,188,330                 |
| <i>Accumulated Depreciation</i> | (809,307)                    | (172,514)                         | -                                   | (981,821)                 |
|                                 | 2,798,809                    | 407,700                           | -                                   | 3,206,509                 |
| Total capital assets, net       | \$ 2,980,095                 | \$ 407,700                        | \$ -                                | \$ 3,387,795              |

**Business-type capital asset activity for the year was as follows:**

| <u>Water Fund</u>                                  | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Completions</u> | <u>Retirements/<br/>Dispositions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|-----------------------------------|--------------------------------------|---------------------------|
| <i>Depreciable Assets:</i>                         |                              |                                   |                                      |                           |
| System infrastructure,<br>improvements & equipment | \$ 2,220,245                 | \$ 28,268                         | \$ -                                 | \$ 2,248,513              |
| <i>Accumulated Depreciation</i>                    | (1,256,374)                  | (53,242)                          | -                                    | (1,309,616)               |
| Total capital assets, net                          | \$ 963,871                   | \$ (24,974)                       | \$ -                                 | \$ 938,897                |
| <br>   |                              |                                   |                                      |                           |
| <u>Industrial Sewer Fund</u>                       | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Completions</u> | <u>Retirements/<br/>Dispositions</u> | <u>Ending<br/>Balance</u> |
| <i>Depreciable Assets:</i>                         |                              |                                   |                                      |                           |
| System infrastructure,<br>improvements & equipment | \$ 588,444                   | \$ -                              | \$ -                                 | \$ 588,444                |
| <i>Accumulated Depreciation</i>                    | (359,983)                    | (14,715)                          | -                                    | (374,698)                 |
| Total capital assets, net                          | \$ 228,461                   | \$ (14,715)                       | \$ -                                 | \$ 213,746                |

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 8 - Capital Assets (continued)**

| <u>Sewer Fund</u>                                  | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Completions</u> | <u>Retirements/<br/>Dispositions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|-----------------------------------|--------------------------------------|---------------------------|
| <u>Non-depreciable Assets:</u>                     |                              |                                   |                                      |                           |
| Land   | \$ 8,580                     | \$ -                              | \$ -                                 | \$ 8,580                  |
| <u>Depreciable Assets:</u>                         |                              |                                   |                                      |                           |
| System infrastructure,<br>improvements & equipment | 1,580,827                    | 26,916                            | -                                    | 1,607,743                 |
| <u>Accumulated Depreciation</u>                    | <u>(541,578)</u>             | <u>(43,666)</u>                   | <u>-</u>                             | <u>(585,244)</u>          |
|  | <u>1,039,249</u>             | <u>(16,750)</u>                   | <u>-</u>                             | <u>1,022,499</u>          |
| Total capital assets, net                          | <u>\$ 1,047,829</u>          | <u>\$ (16,750)</u>                | <u>\$ -</u>                          | <u>\$ 1,031,079</u>       |
| <br>   |                              |                                   |                                      |                           |
| <u>Building Inspection Fund</u>                    | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Completions</u> | <u>Retirements/<br/>Dispositions</u> | <u>Ending<br/>Balance</u> |
| <u>Depreciable Assets:</u>                         |                              |                                   |                                      |                           |
| Vehicles and equipment                             | \$ 44,611                    | \$ -                              | \$ -                                 | \$ 44,611                 |
| <u>Accumulated Depreciation</u>                    | <u>(31,193)</u>              | <u>(3,374)</u>                    | <u>-</u>                             | <u>(34,567)</u>           |
| Total capital assets, net                          | <u>\$ 13,418</u>             | <u>\$ (3,374)</u>                 | <u>\$ -</u>                          | <u>\$ 10,044</u>          |

**Note 9 - Long-term Obligations**

The following summarizes the changes in long-term obligations for the year:

| <u>Governmental Activities</u>  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>  | <u>End of<br/>Year</u> | <u>Due Within<br/>One Year</u> |
|---------------------------------|------------------------------|------------------|--------------------|------------------------|--------------------------------|
| Compensated absences            | \$ 325,315                   | \$ -             | \$ (170,283)       | \$ 155,032             | \$ -                           |
| <br>                            |                              |                  |                    |                        |                                |
| <u>Business-type Activities</u> |                              |                  |                    |                        |                                |
| Capital lease purchase          | \$ 168,510                   | \$ -             | \$ (43,814)        | \$ 124,696             | \$ 43,814                      |
| Compensated absences            | 78,730                       | 8,092            | -                  | 86,822                 | -                              |
|                                 | <u>\$ 247,240</u>            | <u>\$ 8,092</u>  | <u>\$ (43,814)</u> | <u>\$ 211,518</u>      | <u>\$ 43,814</u>               |

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 9 - Long-term Obligations (continued)**

Capital Lease Purchase Obligation

Contract entered into on January 20, 2008, due in monthly payments of \$3,651, interest at 4.9% per annum, final maturity fiscal year 2013-14, secured by a Vac-Con utility truck. Future debt service requirements are as follows:

| <u>Year Ending June 30,</u> |                   |
|-----------------------------|-------------------|
| 2012                        | \$ 43,814         |
| 2013                        | 43,814            |
| 2014                        | 37,068            |
|                             | <u>\$ 124,696</u> |

Operating Lease Obligation

Contract entered into on January 1, 2011 between the County of Glenn, and the City of Orland, to lease seven public safety vehicles. Monthly lease costs are based upon mileage depreciation, and operating and maintenance costs. The lease expires on December 31, 2014. Monthly lease costs have recently averaged \$5,000 per month. The following chart lists estimated future obligations, subject to miles driven, and maintenance costs, as follows:

| <u>Year Ending June 30,</u> |                   |
|-----------------------------|-------------------|
| 2012                        | \$ 60,000         |
| 2013                        | 61,200            |
| 2014                        | 62,400            |
| 2015                        | 31,800            |
|                             | <u>\$ 215,400</u> |

Internal Loans

In prior years the Water enterprise fund loaned the General fund cash to provide for working capital needs. The loan accrues interest at the LAIF rate. At the June 30, 2011 the outstanding balance with accrued interest was \$474,535.

**Note 10 - Defined Benefit Pension Plan**

Plan Description

All eligible full-time employees participate in the City's defined benefit pension plan, administered through the California Public Employee's Retirement System, which provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System (CalPERS) is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provision as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolution (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California, 95814.

Funding Status and Progress

Miscellaneous (non-public safety) participants are required to contribute 8% of their annual covered salary, while public safety employees are required to contribute 9% of their annual covered salary. Miscellaneous employees contribute their required 8% share, while public safety employees contribute 8% of their required 9% share with the City paying the 1% difference. The City's required contribution is based upon an actuarially determined rate. The current 2010-11 fiscal year employer rate was 21.124% for miscellaneous employees, and 40.529% for public safety employees (safety plan), of annual covered payroll. The subsequent 2011-12 fiscal year employer rate is projected to increase to 46.441% for public safety employees and to 24.923% for miscellaneous employees. The contribution requirements of plan members, and the City, are established annually and may be amended by CalPERS.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 10 - Defined Benefit Pension Plan (continued)**

Annual Pension Cost

The City's annual pension cost of \$658,189 to CalPERS was as follows:

|  |    |            |
|--|----|------------|
| Required contributions paid by employees         | \$ | 141,313    |
| Required contributions paid by employer          |    | 510,433    |
| Required employee contributions paid by employer |    | 6,443      |
|  |    | \$ 658,189 |

The required contributions were determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

- a 7.75% investment rate of return (net of administrative expenses).
- projected salary increases of 3.55% to 14.45% depending on age, service, and type of employment.
- an inflation rate of 3.0%.
- a payroll growth rate of 3.25%.
- individual salary growth - a merit scale varying by duration of employment coupled with an assumed annual inflation growth rate of 3.00% and an annual production growth of 0.25%.

The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). The Schedule of Funding Progress on page 33 shows that both plans were underfunded as of June 30, 2010. Information for the year ending June 30, 2011 has not been released by the Plan Actuary.

The contribution rate for normal cost is determined using the entry-age normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. Significant actuarial assumptions used in the 2010 valuation to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Historical Trend Information

Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Three-Year Trend Information for CalPERS

| Fiscal<br>Year | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed | Net Pension<br>Obligation |
|----------------|------------------------------|----------------------------------|---------------------------|
| 2008-09        | \$ 592,849                   | 100%                             | \$ -0-                    |
| 2009-10        | \$ 707,656                   | 100%                             | \$ -0-                    |
| 2010-11        | \$ 658,189                   | 100%                             | \$ -0-                    |

Employer Side Fund

At the time of the City joining the CalPERS risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the City's two plans. At June 30, 2011 the side fund balances were approximately \$1,306,000 for the Miscellaneous plan, and \$1,092,000 for the Public Safety plan. Payments to the Side Fund are included in the monthly required employer contributions. See Subsequent Events Note in reference to prepaying this obligation.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 11 - Risk Management**

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is a member of the Golden State Risk Management Authority (GSRMA, the Authority), a public entity risk pool currently operating as a common risk management and insurance program for 170 member cities, counties and districts. The relationship between the City and GSRMA is such that the Authority is not a component unit of the City for financial reporting purposes. GSRMA is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the Authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board. The City's deposits with the Authority are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the year the City expended \$120,331 for workers compensation coverage and \$97,596 for property and liability coverage. Policy limits of \$50m per occurrence for general liability, and up to \$600,000 maximum payment per covered loss for automobile physical damage, mobile equipment, boiler and machinery. Policy limits for workers' compensation match statutory limits on a per occurrence basis. Employer's liability coverage is included with the policy limits of \$5m per occurrence.

Financial statements may be obtained from GSRMA, Post Office Box 706, Willows, California 95988. Audit condensed financial information for the Authority for the year ended June 30, 2010 was audited by other auditors, and is presented below:

**Statement of Net Assets**

|                   |                            |
|-------------------|----------------------------|
| Total Assets      | \$ 14,361,964              |
| Total Liabilities | <u>8,834,088</u>           |
| Net Assets        | <u><u>\$ 5,527,876</u></u> |

**Statement of Revenue, Expenses and Changes in Net Assets**

|                         |                          |
|-------------------------|--------------------------|
| Operating Revenue       | \$ 6,948,226             |
| Operating Expenses      | <u>7,106,025</u>         |
| Operating Income (Loss) | (157,799)                |
| Non-Operating Income    | <u>415,648</u>           |
| Net Income (Loss)       | <u><u>\$ 257,849</u></u> |

**Note 12 - Contingent Liabilities**

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

The City is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the City.

**Note 13 - Net Assets and Fund Balance Designations**

The GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," issued in March 2009, initially distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with long-term notes receivable or inventory, and other amounts that are classified as spendable based on the relative strength of the constraints that control the purposes for which specific amounts can be spent.

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 13 - Net Assets and Fund Balance Designations (continued)**

Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Non-spendable - amounts that cannot be spent because they are either (1) not in spendable form or (2) are legally or contractually required to be maintained intact, such as long term notes receivables.
- Restricted - amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.
- Committed - amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority.
- Assigned - amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed.
- Unassigned - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The new standard also clarifies the definitions of individual governmental fund types. It also specifies how economic stabilization or "rainy day" amounts should be reported. Because of the specific nature of these accounts, the statement considers stabilization amounts as *specific purposes*. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the appropriate criteria. Only if the resources in the stabilization arrangement derive from a restricted or committed revenue source could a stabilization fund be reported as a special revenue fund.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by this statement. The capital projects fund type was clarified for better alignment with the needs of financial statement users and prepares. Definitions are as follows:

- General fund - account for and report all financial resources and uses not accounted for and reported in another fund.
- Special revenue funds - account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Capital projects funds - account for and report financial resources that are restricted, committed, or assigned to the expenditure for capital outlays, including the acquisition of construction of capital facilities and other capital assets.
- Debt service funds - account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- Permanent funds - account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

The requirements of this statement are effective for fiscal periods beginning after June 15, 2010, and beginning with this financial statement, it is fully implemented.

**Note 14 - New Pronouncements**

Governmental Accounting Standards Board Statement No. 62

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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

**CITY OF ORLAND**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 14 - New Pronouncements (continued)**

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF ORLAND**  
**Note to Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2011**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the close of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed revenue and expenditures.
- Public hearings are conducted at City Council meetings to obtain taxpayer comments prior to adoption of the budget in June.
- Prior to July 1, the budget is legally adopted for all governmental fund types through Council approved budget.
- The City Manager is authorized to transfer budget amounts within and between funds as deemed desirable and necessary in order to meet the City's needs; however, revisions that alter the total expenditures must be approved by the City Council. Formal budgetary integration is employed as a management control device during the year for the governmental type funds.
- Budgets for the governmental type funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented are as originally adopted and as further amended by the City Council.

**CITY OF ORLAND**  
**Budgetary Comparison Information**  
**General Fund**  
**Year Ended June 30, 2011**

| <i>Resources (Inflows)</i>                      | Budgeted Amounts        |                         | Actual<br>Amounts     | Variance with<br>Final Budget |
|---|-------------------------|-------------------------|-----------------------|-------------------------------|
|   | Original                | Final                   |                       | Positive<br>(Negative)        |
| Property taxes                                  | \$ 734,601              | \$ 734,601              | \$ 798,774            | \$ 64,173                     |
| Sales taxes                                     | 698,246                 | 684,246                 | 747,728               | 63,482                        |
| Motor vehicle in lieu                           | 667,000                 | 667,000                 | 607,311               | (59,689)                      |
| Franchise taxes                                 | 100,000                 | 100,000                 | 105,044               | 5,044                         |
| Transient occupancy taxes                       | 42,000                  | 42,000                  | 47,559                | 5,559                         |
| Licenses and fees                               | 49,500                  | 49,500                  | 57,055                | 7,555                         |
| Fines and forfeits                              | 38,000                  | 38,000                  | 37,447                | (553)                         |
| Intergovernmental                               | 65,000                  | 118,680                 | 110,260               | (8,420)                       |
| Charges for services                            | 89,554                  | 84,554                  | 146,871               | 62,317                        |
| Use of money and property                       | 52,000                  | 52,000                  | 42,016                | (9,984)                       |
| Other revenue                                   | 192,000                 | 192,000                 | 168,449               | (23,551)                      |
| Amounts Available for Appropriation             | <u>2,727,901</u>        | <u>2,762,581</u>        | <u>2,868,514</u>      | <u>105,933</u>                |
| <br><i>Charges to Appropriations (Outflows)</i> |                         |                         |                       |                               |
| City Council                                    | 27,586                  | 27,586                  | 30,056                | (2,470)                       |
| City Manager                                    | 132,678                 | 132,678                 | 131,982               | 696                           |
| City Clerk                                      | 92,059                  | 92,059                  | 96,082                | (4,023)                       |
| City Finance                                    | 89,429                  | 89,429                  | 100,621               | (11,192)                      |
| City Attorney                                   | 41,853                  | 41,853                  | 48,499                | (6,646)                       |
| City Engineer                                   | 33,267                  | 33,267                  | 42,592                | (9,325)                       |
| City Building maintenance                       | 48,885                  | 48,885                  | 51,337                | (2,452)                       |
| City Planner                                    | 144,645                 | 144,645                 | 146,929               | (2,284)                       |
| City Police                                     | 1,535,187               | 1,535,187               | 1,565,792             | (30,605)                      |
| City Fire                                       | 75,000                  | 75,000                  | 67,362                | 7,638                         |
| City Library                                    | 291,062                 | 291,062                 | 251,614               | 39,448                        |
| City Recreation and pool                        | 167,453                 | 167,453                 | 175,513               | (8,060)                       |
| City Grants administration                      | 5,775                   | 5,775                   | -                     | 5,775                         |
| City Streets and storm drains                   | 91,577                  | 91,577                  | 64,056                | 27,521                        |
| Park maintenance                                | 111,490                 | 111,490                 | 104,862               | 6,628                         |
| Total Charges to Appropriations                 | <u>2,887,946</u>        | <u>2,887,946</u>        | <u>2,877,297</u>      | <u>10,649</u>                 |
| <br><i>Surplus (Deficit)</i>                    | <br><u>\$ (160,045)</u> | <br><u>\$ (125,365)</u> | <br><u>\$ (8,783)</u> | <br><u>\$ 116,582</u>         |

***OTHER SUPPLEMENTARY INFORMATION***

**CITY OF ORLAND**  
**Schedule of Funding Progress (CalPERS cost sharing pool)**  
**Defined Benefit Pension Plan**  
**Year Ended June 30, 2011**

**Pooled Report Format**

Since the City has less than 100 active members in each plan, it is required by CalPERS to participate in a risk pool. Therefore, no required supplementary information is required to be presented in this report regarding the funded status of the plan, however the City believes this information is particularly useful to users of this financial statement report because it displays the unfunded status of the plans. The following valuation reports the activity of the risk pools as a whole, and not the specific activity of individual members such as the City of Orland.

|  | Actuarial Valuation Date - Year Ended |                  |                   |
|--|---------------------------------------|------------------|-------------------|
|  | June 30, 2008                         | June 30, 2009    | June 30, 2010     |
| <b><u>Miscellaneous Plan - 2.7% @ 55</u></b> |                                       |                  |                   |
| Accrued Liabilities (AL)                     | \$ 1,823,366,479                      | \$ 2,140,438,884 | \$ 2,297,871,345  |
| Actuarial Value of Assets (AVA)              | \$ 1,529,548,799                      | \$ 1,674,260,302 | \$ 1,815,671,616  |
| Unfunded Liabilities (UL)                    | \$ 293,817,680                        | \$ 466,178,582   | \$ 482,199,729    |
| Funded Ratio (AVA/AL)                        | 83.9%                                 | 78.2%            | 79.0%             |
| Annual Covered Payroll                       | \$ 414,589,514                        | \$ 440,071,499   | \$ 434,023,381    |
| UL As a Percentage of Payroll                | 70.9%                                 | 105.9%           | 111.1%            |
| <b><u>Safety Plan - 3.0% @ 50</u></b>        |                                       |                  |                   |
| Accrued Liabilities (AL)                     | \$ 8,700,467,733                      | \$ 9,721,675,347 | \$ 10,165,475,166 |
| Actuarial Value of Assets (AVA)              | \$ 7,464,927,716                      | \$ 8,027,158,724 | \$ 8,470,235,152  |
| Unfunded Liabilities (UL)                    | \$ 1,235,540,017                      | \$ 1,694,516,623 | \$ 1,695,240,014  |
| Funded Ratio (AVA/AL)                        | 85.8%                                 | 82.6%            | 83.3%             |
| Annual Covered Payroll                       | \$ 914,840,596                        | \$ 973,814,168   | \$ 955,980,815    |
| UL As a Percentage of Payroll                | 135.1%                                | 174.0%           | 177.3%            |

*Note - Details of the defined benefit pension plan can be found in Note 10 of the financial statements.*

**CITY OF ORLAND**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

|                                     | Gasoline Tax | Transportation Tax | Traffic Congestion | Assessment Districts | Community Center | Arts Commission | Recreation Sprinkler Donations | Centennial Celebration | Library Funds | Police Department Grants | Economic & Block Grants | Totals       |
|-------------------------------------|--------------|--------------------|--------------------|----------------------|------------------|-----------------|--------------------------------|------------------------|---------------|--------------------------|-------------------------|--------------|
|                                     |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| <b>ASSETS</b>                       |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| Cash and investments                | \$ 218,563   | \$ 84,621          | \$ 15,279          | \$ 539,668           | \$ 1,315         | \$ 13,027       | \$ 1,200                       | \$ -                   | \$ 92,104     | \$ 37,876                | \$ 27,534               | \$ 1,031,187 |
| Receivables                         | 23,507       | -                  | -                  | 2,720                | -                | -               | -                              | -                      | -             | 19,701                   | 246,430                 | 292,358      |
| Notes receivables                   | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | 930,306                 | 930,306      |
| Total Assets                        | \$ 242,070   | \$ 84,621          | \$ 15,279          | \$ 542,388           | \$ 1,315         | \$ 13,027       | \$ 1,200                       | \$ -                   | \$ 92,104     | \$ 57,577                | \$ 1,204,270            | \$ 2,253,851 |
| <b>LIABILITIES</b>                  |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| Accounts payable                    | \$ 24        | \$ 73,627          | \$ -               | \$ 1,159             | \$ -             | \$ 231          | \$ -                           | \$ -                   | \$ -          | \$ -                     | \$ 3,158                | \$ 78,199    |
| Deferred revenue                    | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | 813           | -                        | 930,306                 | 931,119      |
| Internal loans                      | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | 42,592                   | 268,794                 | 311,386      |
| Total Liabilities                   | 24           | 73,627             | -                  | 1,159                | -                | 231             | -                              | -                      | 813           | 42,592                   | 1,202,258               | 1,320,704    |
| <b>FUND BALANCES</b>                |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| Nonspendable                        | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | 80,000        | -                        | -                       | 80,000       |
| Restricted                          | 242,046      | 10,994             | 15,279             | 541,229              | 1,315            | 12,796          | 1,200                          | -                      | 11,291        | 14,985                   | 2,012                   | 853,147      |
| Total Fund Balances                 | 242,046      | 10,994             | 15,279             | 541,229              | 1,315            | 12,796          | 1,200                          | -                      | 91,291        | 14,985                   | 2,012                   | 933,147      |
| Total Liabilities and Fund Balances | \$ 242,070   | \$ 84,621          | \$ 15,279          | \$ 542,388           | \$ 1,315         | \$ 13,027       | \$ 1,200                       | \$ -                   | \$ 92,104     | \$ 57,577                | \$ 1,204,270            | \$ 2,253,851 |

**CITY OF ORLAND**  
**Combining Statement of Revenue, Expenditures, and Change in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

|                                | Gasoline Tax | Transportation Tax | Traffic Congestion | Assessment Districts | Community Center | Arts Commission | Recreation Sprinkler Donations | Centennial Celebration | Library Funds | Police Department Grants | Economic & Block Grants | Totals       |
|--------------------------------|--------------|--------------------|--------------------|----------------------|------------------|-----------------|--------------------------------|------------------------|---------------|--------------------------|-------------------------|--------------|
| <b>REVENUE</b>                 |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| Intergovernmental revenue      | \$ 189,198   | \$ 250,295         | \$ -               | \$ -                 | \$ -             | \$ -            | \$ -                           | \$ -                   | \$ 22,216     | \$ 279,866               | \$ 645,608              | \$ 1,387,183 |
| Charge for services            | -            | -                  | -                  | 12,078               | -                | 8,454           | -                              | -                      | -             | -                        | -                       | 20,532       |
| Investment earnings            | 544          | 28                 | 87                 | -                    | -                | -               | -                              | 2,029                  | 200           | -                        | 4,152                   | 5,011        |
| Other revenue                  | -            | -                  | -                  | -                    | -                | -               | -                              | 2,029                  | 4,963         | 29,117                   | 42,486                  | 78,595       |
| Total Revenue                  | 189,742      | 250,323            | 87                 | 12,078               | -                | 8,454           | -                              | 2,029                  | 27,379        | 308,983                  | 692,246                 | 1,491,321    |
| <b>EXPENDITURES</b>            |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| Current -                      |              |                    |                    |                      |                  |                 |                                |                        |               |                          |                         |              |
| General government             | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | -                       | -            |
| Community development          | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | 578,033                 | 578,033      |
| Public safety                  | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | 310,698                  | -                       | 310,698      |
| Public works and streets       | 197,654      | 252,295            | 31,989             | 64,729               | -                | -               | -                              | -                      | -             | -                        | -                       | 546,667      |
| Library and Arts               | -            | -                  | -                  | -                    | -                | 1,995           | -                              | -                      | 31,204        | -                        | -                       | 33,199       |
| Parks and recreation           | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | -                       | -            |
| Capital outlay                 | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | 106,237                 | 106,237      |
| Total Expenditures             | 197,654      | 252,295            | 31,989             | 64,729               | -                | 1,995           | -                              | -                      | 31,204        | 310,698                  | 684,270                 | 1,574,834    |
| Excess (Deficiency) of Revenue | (7,912)      | (1,972)            | (31,902)           | (52,651)             | -                | 6,459           | -                              | 2,029                  | (3,825)       | (1,715)                  | 7,976                   | (83,513)     |
| Over (Under) Expenditures      | -            | -                  | -                  | -                    | -                | -               | -                              | 217                    | -             | 186                      | (46,824)                | (46,421)     |
| Transfers in (out)             | -            | -                  | -                  | -                    | -                | -               | -                              | -                      | -             | -                        | -                       | -            |
| <b>CHANGE IN FUND BALANCES</b> | (7,912)      | (1,972)            | (31,902)           | (52,651)             | -                | 6,459           | -                              | 2,246                  | (3,825)       | (1,529)                  | (38,848)                | (129,934)    |
| Fund Balance - beginning       | 249,958      | 12,966             | 47,181             | 593,880              | 1,315            | 6,337           | 1,200                          | (2,246)                | 95,116        | 16,514                   | 40,860                  | 1,063,081    |
| Fund Balance - end of year     | \$ 242,046   | \$ 10,994          | \$ 15,279          | \$ 541,229           | \$ 1,315         | \$ 12,796       | \$ 1,200                       | \$ -                   | \$ 91,291     | \$ 14,985                | \$ 2,012                | \$ 933,147   |