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TEHAMA COUNTY/CITY OF RED BLUFF LANDFILL MANAGEMENT AGENCY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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Donald R. Reynolds
Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

Honorable Chairman and Members
of the Board of Directors
Tehama County/City of Red Bluff
Landfill Management Agency
Red Bluff, California

I have audited the accompanying financial statements of the business-type activities of Tehama County/City of Red Bluff Landfill Management Agency (a joint powers agency), as of and for the year ended June 30, 2012, which comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Tehama County/City of Red Bluff Landfill Management Agency, as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated January 15, 2013, on my consideration of Tehama County/City of Red Bluff Landfill Management Agency's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

1438 Oregon Street, P.O. Box 994508 Redding, CA 96099-4508 (530) 246-2834 fax (530) 244-0331

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

Redding, California
January 15, 2013

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TEHAMA COUNTY/CITY OF RED BLUFF LANDFILL MANAGEMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

This section of the Tehama County/Red Bluff Landfill Management Agency annual financial report presents a discussion and analysis of the Agency's financial performance during the year ended June 30, 2012. Please read it in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Total net assets at June 30, 2012 equaled $815,424 vs. $813,485 at the same time the previous year. This is an increase of 0.24%.

Unrestricted net assets at June 30, 2012 equaled $435,592 vs. $427,378 at the same time the previous year. This is an increase of 1.92%.

Operating income (loss) and changes in net assets at June 30, 2012 equaled $ (30,173) and $1,939, respectively vs. $47,797 and $62,881 at the same time the previous year. These are decreases of 163.13% and 96.92%, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the financial statements and the notes to the financial statements.

The financial statements provide both long-term and short-term information about the Agency's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Agency are included in the Statement of Net Assets.

The Statement of Net Assets presents the financial position of the Agency on a full accrual historical basis and provides information about the nature and amount of resources and obligations at year-end.

TEHAMA COUNTY/CITY OF RED BLUFF LANDFILL MANAGEMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets

The following table summarizes the changes between June 30, 2012 and 2011:

	2012	2011	% Change
Current Assets	$ 504,064	$ 487,225	3.46%
Restricted Assets	66,636	66,280	0.54%
Nondepreciable Capital Assets	279,207	279,207	0.00%
Capital Assets	33,989	40,620	(16.32)%
Other Assets	132,564	165,704	(20.00)%
Total Assets	$ 1,016,460	$ 1,039,036	(2.17)%
Current Liabilities	$ 68,472	$ 59,847	14.41%
Long-Term Debt	132,564	165,704	(20.00)%
Total Liabilities	201,036	225,551	(10.87)%
Net assets invested in capital	313,196	319,827	(2.07)%
Restricted Net Assets	66,636	66,280	0.54%
Unrestricted Net Assets	435,592	427,378	1.92%
Total Net Assets	$ 815,424	$ 813,485	0.24%

From fiscal years ended 2011 to 2012, current assets increased 3.5%, current liabilities increased by 14.4%, and long term debt decreased 20.0%. Net assets invested in capital decreased by 2.1%, and unrestricted net assets increased by 1.9%, resulting in an increase of total net assets of 0.24%.

Changes in Net Assets

The following table summarizes the changes in net assets:

	2012	2011	%Change
Operating Revenues	$ 301,909	263,433	14.61 %
Operating Expenses:			
Personnel and other admin expenses	290,198	163,308	77.70%
Landfill Operations	1,428	11,227	(87.28)%

	2012	2011	%Change
Other Operating Expenses	40,456	41,101	(1.57)%
Total Operating Expenses	332,082	215,636	54.00 %
Operating Income (Loss)	(30,173)	47,797	(163.13)%
Net non-operating revenues (expenses)	32,112	15,084	112.89 %
Change in Net Assets	1,939	62,881	(96.92)%
Total Net Assets, beginning of year	813,485	750,604	8.38%
Total Net Assets, end of year	$ 815,424	$ 813,485	0.24%

Net assets invested in capital decreased and unrestricted net assets increased 2.1% and 1.9%, respectively due to depreciable capital and additional one-time revenue from the Fish Passage Improvement Project.

Changes to net assets increased slightly due to increases in revenue being offset by increases in administration costs associated with the Public Operations Study and costs to negotiate a Landfill Operations Agreement. Operating revenue increased due to one -time construction and demolition projects and waste received from the Fish Passage Improvement Project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the changes in net capital assets between 2012 and 2011:

	2012	2011	% Change
Equipment	$ 7,771	$ 7,771	0.0%
Vehicle	39,501	39,501	0.0%
Building	33,053	33,053	0.0%
Total	80,325	80,325	0.0%
Less accumulated depreciation	46,336	39,705	16.7%
Capital Assets, Net	$ 33,989	$ 40,620	(16.32)%

Net capital assets decreased and accumulated depreciation increased 16.32% and 16.7%, respectively due to the depreciation of capital assets, primarily the Agency's 2010 Toyota Prius.

Debt Administration

Long term debt includes debt from a California Department of Resources, Recycling, and Recovery (formerly known as California Integrated Waste Management Board) loan retained by the Agency as a courtesy for the Tehama County Sanitary Landfill Agency. More detailed information about the Agency's long-term debt is presented in Note 4.

ECONOMIC FACTORS AND 2012/2013 BUDGET

When assessing future revenue growth, the Agency looks at two primary factors (estimated increases in tonnage and consumer price index changes), and one secondary factor (special handling charges). Future growth to expenditures is more fluid, relying on employment levels, regulatory requirements, and desired funding levels for public services that elevate public health and safety (such as litter abatement and household hazardous waste services). Additionally, a JPA known as the Tehama County Sanitary Landfill Agency can provide revenue or assume expenditures on programs within its By-Laws and contractual agreements. Depending on the results of the Request for Proposals for Tehama County/Red Bluff Landfill and Material Recovery Facility operations, the Agency operational structure could change significantly in March 2014 when the existing operations agreement with Waste Connections terminates. Many of these factors are discussed below:

Revenue

Increases to Tonnage - Tehama County and the incorporated cities are experiencing flat development and population, the two major factors in predicting future changes in incoming tonnage. Incoming tonnage (and revenue) are currently in a state of flux due to declines in the construction market and the slow economic recovery. In forecasting growth to incoming tonnage (and resulting revenue), there is a potential for increases or decreases depending on the economy, which directly affects per capita consumption and disposal. Currently the Agency expects tonnage to remain flat for FY 2012/13, with a potential for minute increases or decreases in the following 2 years. The Agency is aware of several large housing, and construction and demolition projects that have been proposed that may or may not result in short-term quantifiable increases to tonnage or revenue. The passage of Assembly Bill 341 Mandatory Commercial Recycling will decrease the amount of tonnage and revenue the Agency receives over time. The Agency also continues to offer incentives to the public to encourage free recycling, which also results in a decrease to short term revenues. In October 2012 Waste Connections with Agency approval, decreased the tipping fee for carpet to encourage its source segregation and recycling. Overall, disposal tonnages are currently in a state of flux, while at the same time waste reduction and recycling is increasing.

Increases to Consumer Price Index (CPI) - The existing contract between the Agency and Waste Connections allows for annual rate increases on incoming tonnage based on 80% of the annual

change in CPI (Urban West). Since the Agency receives a percentage of revenues, the Agency effectively receives this percentage increase to revenues as well. For FY 2012/13 with Agency Board approval, Waste Connections set a 5.0% rate increase. Future increases for the next one to two years will be slight unless Waste Connections requests an additional extraordinary rate increase. Extraordinary rate increases are permitted in years when the total operating cost of the Landfill increases in any year beyond the increase in revenue derived from the CPI and also results in a total net revenue that is less than the preceding year.

Special Handling Charges - Many bulky or hazardous items require a special charge for proper disposal or recycling. Examples of bulky items include sofas and mattresses (which require extra fees to support their recycling or burial), and examples of hazardous items include refrigerators (which must be certified as "freon-free" prior to recycling). The Agency receives 5% of special handling fees, which results in very little revenue from these fees. Beginning in July 2007, the Agency established a fee for uncovered loads of $5 per vehicle as a way to discourage citizens from loading their vehicles in a way to increase roadside litter. It is anticipated the fees will generate approximately $3,600 in revenue for FY 2012/13, which will help support, but not fully fund road clean up. In July 2009, the Agency agreed to waive the 5% it receives for mattresses and box springs to support the implementation of a mattress recycling program, which equates to $650 annually.

Miscellaneous Revenue - The Agency can receive other revenue from a variety of sources, including donations, and contracted consulting. Most miscellaneous revenue from FY 2012/2013 will come from donations by residents for use of our free household hazardous waste programs, charges to small businesses for use of the hhw programs, reimbursements by Waste Connections for negotiations expenses, grazing lease payments, and Recycled Market Development Zone reimbursements.

Expenditures

Personnel - In developing annual budgets, the Agency first accounts for the estimated salaries, wages and benefits of Agency personnel. Currently, the Agency budgets for a part-time extra-help person and 2 full-time employees, a full-time Landfill Agency Manager, and a Recycling Coordinator (a Tehama County employee paid for by the Agency). This staffing level accounts for over 50% of the Agency's recurring expenditures. Expenditures related to personnel are subject to change based on factors that can be outside of Agency control, including retirement contribution rates, health insurance costs, and wage increases due to collective bargaining on behalf of the unionized positions. The Landfill Agency Manager's salary and benefits are determined by a three-year contract agreement approved by the Tehama County/Red Bluff Landfill Management Agency. All other Agency needs are provided by contractors or sub-contractors to Waste Connections or the County of Tehama. Dependent on the results of the Landfill and Material

Recovery Facility Request for Proposals, Agency staffing levels could change significantly.

Insurance - The Agency pays insurance for worker's compensation, special liability, and property. The last several years have seen minor increases in special liability, partly due to industry-wide increases, and partly due to past claims against the Agency. Since workers' compensation rates are based on a combination of claims history and staffing levels, future rates may change due to Agency staffing levels. Fiscal year 2012/13 workers' compensation rates will decrease significantly due to there being no claims of significance. Since the Agency participates in a pooled workers' compensation program with Tehama County, ultimately increases or decreases rely on the overall Tehama County insurance usage.

Agency Special Programs - In recent years, Agency surpluses have been used to expand programs county-wide that increase the health and safety of county residents. Examples of these programs include household hazardous waste collection events, medical waste sharps collection program, fluorescent light recycling program, alkaline battery recycling program, and illegal dumping/litter cleanup. During the current fiscal year, these programs have been budgeted for $44,000 in expenditures.

Beginning in July 2012 Assembly Bill 1343 Paint Product Stewardship will take effect. The bill requires paint manufacturers to develop and fund a take-back program for architectural paint. Household hazardous waste disposal costs will significantly decline in fiscal year 2012/13 when an agreement is reached with PaintCare.

Pass-through Expenditures - The Agency manages projects on behalf of the Tehama County Sanitary Landfill Agency, a similar agency that utilizes staffing from this Agency. Beginning in FY 2009/2010 due to a large amount of personnel time spent conducting public education and outreach on behalf of the Sanitary Landfill Agency (JPA I), JPA I increased its reimbursement from 20% to 25% for administrative costs incurred by the Agency. In addition to reimbursing personnel costs for certain projects, JPA I also reimburses this Agency for large expenses related to their requirements for closure and postclosure maintenance. Thus, major expenses are typically reimbursed during the same reporting period.

Regulatory Requirements - The Agency is required to meet or exceed various federal, state and local regulatory requirements. Many of these requirements are incorporated into the existing operational contract with Waste Connections. Occasionally, however, the Agency is required to fund projects not covered by the contract. The State Water Resources Control Board Waste Discharge Fee and Industrial Storm Waster Permit, the United States Environmental Protection Agency Greenhouse Gas Rule, and the State Air Resources Board Landfill Gas Regulation could result in

significant costs to Waste Connections, which will ultimately be passed along to landfill users and garbage rate payers. A total tipping fee increase of $3.54 per ton occurred in fiscal year 2012/13 due to an increase in regulatory requirements and a pass-through increase to the Tehama County Sanitary Landfill Agency to fund Assembly Bill 939 programs. Other regulatory expenses beginning in the 2016 timeframe should be minimized due to closure of the Phase I landfill, and subsequent transition of maintenance expenses to the Tehama County Sanitary Landfill Agency.

Other Expenditures - The Agency utilizes funding during daily operations for office expenses, communications, travel, legal notices, professional services and other expenses. Significant Professional services expenditures will remain in FY 2012/13 due to the Landfill and Material Recovery Facility Operations Request for Proposals.

Other Projects - In fiscal year 2008/09 the Agency assessed the viability of a site energy project to utilize landfill gas to create electricity. Bid documents were developed and one qualifying proposal was received. A landfill gas to electricity project was not financially viable for the Agency at that time. In the future, the Agency may want to reassess the viability of a landfill gas to electricity project and the viability of a project to use solar power to create electricity. At this time, the complete scope of the aforementioned projects have not been determined, however, they could take the form of royalty payments (revenue) from a private entity, or as a decrease in expense for ongoing costs such as electricity.

In fiscal year 2009/10 the Agency purchased 184.65 acres of land to be used as a landfill buffer zone. In FY 2010/11, the Agency began leasing the newly purchased acreage for grazing purposes, which provides an additional revenue source to the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Landfill Agency Manager, Tehama County/Red Bluff Landfill Management Agency, 19995 Plymire Rd, Red Bluff, CA 96080 or call 530-528-1103.

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TEHAMA COUNTY/CITY OF RED BLUFF
LANDFILL MANAGEMENT AGENCY
STATEMENTS OF NET ASSETS
June 30, 2012

ASSETS		
Current assets:		
Cash and cash equivalents	$	413,050
Receivables		21,673
Expense reimbursements receivable		-
Prepaid expenses		36,201
Current portion of loan receivable		33,140
Total current assets		504,064
Noncurrent assets:		
Restricted cash and cash equivalents		66,636
Nondepreciable capital assets		279,207
Depreciable capital assets, net		33,989
Loans receivable, net of current maturities		132,564
Total noncurrent assets		512,396
Total assets	$	1,016,460
LIABILITIES		
Current liabilities:		
Accounts payable	$	18,342
Accrued compensated absences		16,990
Current maturities of long-term debt		33,140
Total current liabilities		68,472
Long-term debt, net of current maturities		132,564
Total liabilities		201,036
NET ASSETS:		
Invested in capital assets, net of related debt		313,196
Restricted net assets - expendable		66,636
Unrestricted net assets		435,592
Total net assets		815,424
Total liabilities and net assets	$	1,016,460

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

TEHAMA COUNTY/CITY OF RED BLUFF
LANDFILL MANAGEMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

OPERATING REVENUES:		
Franchise fees		
Total operating revenues	$	301,909
OPERATING EXPENSES:		301,909
Personnel and other administrative expenses, net		
Landfill operations		290,198
Other operating expenses		1,428
Total operating expenses		40,456
OPERATING INCOME (LOSS)		332,082
NON-OPERATING REVENUES (EXPENSES):		(30,173)
Other income		
Interest		28,697
Total non-operating revenues (expenses)		3,415
CHANGE IN NET ASSETS		32,112
NET ASSETS, BEGINNING OF YEAR		1,939
NET ASSETS, END OF YEAR		813,485
	$	815,424

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

TEHAMA COUNTY/CITY OF RED BLUFF
LANDFILL MANAGEMENT AGENCY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$	330,606
Cash received for reimbursable expenses		78,342
Cash paid to suppliers		(208,151)
Cash paid to County for personnel services		(174,716)
Net cash provided by operating activities		26,081
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments on long-term debt		(33,140)
Net cash (used) by noncapital financing activities		(33,140)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on note receivable		33,140
Purchase of capital assets		-
Interest received		3,415
Net cash provided (used) by investing activities		36,555
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		29,496
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		450,190
CASH AND CASH EQUIVALENTS, END OF YEAR	$	479,686
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$	413,050
Restricted cash and cash equivalents		66,636
Total cash and cash equivalents	$	479,686

(Continued on following page)

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

TEHAMA COUNTY/CITY OF RED BLUFF
LANDFILL MANAGEMENT AGENCY
STATEMENTS OF CASH FLOWS
Year ended June 30, 2012

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	$	(30,173)
Other income (loss)		28,697
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation		6,631
(Increase) decrease in:		
Receivables		3,224
Expense reimbursements receivable		-
Prepaid expenses		9,077
Increase (decrease) in:		
Accounts payable		8,730
Accrued compensated absences		(105)
Net cash provided by operating activities	$	26,081

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Tehama County/City of Red Bluff Landfill Management Agency:

Reporting Entity

Tehama County/City of Red Bluff Landfill Management Agency (Agency) is a joint powers agency formed by an agreement between the County of Tehama and the City of Red Bluff. The Agency was formed to operate, and have management oversight over, the operation of the landfill owned by Tehama County and the City of Red Bluff and oversight over contractors, including compliance with the terms of any contract entered into between the Agency and any contractor. The Agency insures compliance with all laws imposed upon landfills, landfill operators and owners of landfills.

The Agency is not significantly influenced by other local government entities, nor does the Agency significantly influence any other local government entity. Accordingly, the Agency's financial statements include only the Agency's operations.

Basis of Accounting

The Agency's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Agency has elected to follow Governmental Accounting Standards Board (GASB) pronouncements, and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement Number 20.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Agency considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, amounts held in external investment pools are reported at fair value. The Agency uses the value of the pool shares held to approximate the fair value of the underlying cash and investments of the pool.

Receivables

Receivables represent revenues earned but not collected. Receivables are uncollateralized and are valued at cost. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. All receivables are adjusted to net realizable value when they are determined to be delinquent based on historical experience.

No allowance for doubtful accounts is presented in the accompanying financial statements as management considers all accounts to be collectible.

Expense Reimbursements Receivable

Personnel and other administrative cost reimbursements due from the Tehama County Sanitary Landfill Agency but not yet collected are presented as a current asset on the balance sheet. See Note 5 for further information regarding the cost sharing agreement.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid assets.

Restricted Cash and Cash Equivalents

Certain resources set aside for loan repayment are classified as restricted because their use is limited by applicable loan covenants.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost when historical

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

cost is not available. Donated capital assets are recorded at market value on the date donated. Maintenance and normal repairs are expensed as incurred. Replacements or repairs which improve or extend the asset lives are capitalized.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Equipment	5 years
Vehicle	5 years
Building	50 years

Compensated Absences

Vested or accumulated sick leave, holiday pay, and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards (GASB) Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Net Assets

Net assets represent the difference between assets and liabilities. The Agency's net assets are classified as follows:

Invested in capital assets, net of related debt — This represents the Agency's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Unrestricted net assets — Unrestricted net assets represent resources derived from

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

franchise fees. These resources are used for transactions relating to the general operations of the Agency, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Agency's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

Operating Revenue and Expense

The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from receiving commercial and residential waste in connection with the Agency's principal ongoing landfill operations. The principal operating revenues of the Agency are franchise fees. Operating expenses for the Agency include the cost of operating the landfill, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Agency has contracted with Waste Connections of California (Waste Connections) to operate the landfill including collecting the gate fees. Waste Connections pays the Agency a franchise fee of 12.36% of tipping fees received. Waste Connections also pays the Agency a fee of 5% of special charges.

Use of Estimates

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

NOTE 2 CASH AND CASH EQUIVALENTS

As required by the Agency's joint powers agreement, the Tehama County Treasurer is

(Continued on following page)

NOTE 2 CASH AND CASH EQUIVALENTS (Conitnued)

designated as the depository of the Agency. The County Treasurer follows the practice of pooling cash and investments of all funds except for deposits required to be held separately based on contractual requirements or when necessary for operational purposes. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the daily cash balances.

The County Treasury's Pooled Money Investment account's weighted average maturities was 2.36 years at June 30, 2012.

Copies of the County's audited financial statements can be obtained from the Tehama County Auditor-Controller's Office, 444 Oak Street, Red Bluff, California 96080.

The pooled treasury has regulatory oversight from the Tehama County Treasury Oversight Committee in accordance with California Government Code requirements.

In addition to the Tehama County Treasury's pooled cash and investments, the Treasurer maintains Agency deposits in one local financial institution.

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the Agency's name.

Risk Information — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. California Government Code Section 53601 limits the County's investments to maturities of five years or less.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized organizations. The Agency's investment in the county investment pool is unrated.

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. In accordance with the Agency's joint powers agreement, all funds are held in the county investment pool.

Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g.,

(Continued on following page)

NOTE 2 CASH AND CASH EQUIVALENTS (Continued)

financial institution, broker-dealer) to a transaction, a government will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party. For deposits, the California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits. For investments, the Agency does not have a policy to address this risk.

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets for the Year Ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Non depreciable assets:				
Land	$ 279,207	$ -	$ -	$ 279,207
Total nondepreciable capital assets	$ 279 207	$ -	$ -	$ 279,207
Depreciable capital assets:				
Equipment	$ 7,771	$ -	$ -	$ 7,771
Vehicle	39,501	-	-	39,501
Building	33,053	-	-	33,053
	80,325	-	-	80,325
Less accumulated depreciation	39,705	6,631	-	46,336
Total depreciable capital assets, net	$ 40,620	$ (6,631)	$ -	$ 33,989

NOTE 4 LOAN RECEIVABLE AND LONG-TERM DEBT

The Agency entered into agreements related to a Facility Compliance Loan Program with

(Continued on following page)

NOTE 4 LOAN RECEIVABLE AND LONG-TERM DEBT (Continued)

the California Integrated Waste Management Board (Board) for the purpose of obtaining funds to loan to the Sanitary Agency. The purpose of the loan to the Sanitary Agency is to provide funds necessary to construct and install a methane gas collection and disposal system at the landfill.

The loan from the Board, in the amount of $497,105, is non-interest bearing and is payable in annual installments of $33,140 over a period of fifteen years.

As part of the loan program with the Board, the Agency is required to establish a pledge of revenue account which can only be used for debt service payments. The Agency must maintain a balance in the account equal to two years' debt service. At June 30, 2012, $66,636 was held in a separate bank account in accordance with this requirement.

The loan to the Sanitary Agency, in the amount of $497,105, is also non-interest bearing and is payable in annual installments of $33,140 over a period of fifteen years.

The change in long-term debt was as follows:

Beginning balance	$ 198,844
Principal reduction	(33,140)
Ending balance	$ 165,704

The annual debt service requirements to amortize the long-term debt are as follows

June 30,	**Total**
2013	$ 33,140
2014	33,140
2015	33,140
2016	33,140
2017	33,144
	165,704
Less current maturities	33,140
Long-term debt, net of current maturities	$ 132,564

(Continued on following page)

NOTE 5 PERSONNEL AND OTHER ADMINISTRATION EXPENSES

Under a contractual agreement with the Tehama County Sanitary Landfill Agency (Sanitary Agency), management has agreed to share administrative staff costs. Accordingly, the Sanitary Agency will reimburse 25% of these amounts. During the year ended June 30, 2012, the amounts reimbursed totaled $41,980.

The Sanitary Agency conducts various grant programs and reimburses the Agency for personnel time spent that is chargeable to these grants. These reimbursements totaled $31,031 for the year ended June 30, 2012 and were in addition to amounts reimbursed under the cost sharing agreement.

These amounts were netted against personnel and other administrative expenses on the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 6 RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2012, the Agency carried insurance through various commercial carriers to cover all risks of losses. The Agency has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years. During the year ended June 30, 2012, the Agency did not reduce insurance coverages from coverage levels in place as of June 30, 2011.

NOTE 7 SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 15, 2013 the first date the financial statements were made available for distribution.

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Donald R. Reynolds
Certified Public Accountant

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

Honorable Chairman and Members
of the Board of Directors
Tehama County/City of Red Bluff
Landfill Management Agency
Red Bluff, California

I have audited the financial statements of the business-type activities of Tehama County/City of Red Bluff Landfill Management Agency (a joint powers agency), as of and for the year ended June 30, 2012, which comprise the Agency's basic financial statements and have issued my report thereon dated January 15, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness.

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

1438 Oregon Street, P.O. Box 994508 Redding, CA 96099-4508 (530) 246-2834 fax (530) 244-0331

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tehama County/City of Red Bluff Landfill Management Agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Redding, California
January 15, 2013

TEHAMA COUNTY/CITY OF RED BLUFF
LANDFILL MANAGEMENT AGENCY
SCHEDULE OF FINDINGS
JUNE 30, 2012

Condition or Specific Requirement: One element of the Agency's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with Generally Accepted Accounting Principles (GAAP).

Statement of Condition: As part of my audit, I prepare adjusting entries necessary to prepare "full accrual" (GASB No. 34) entity-wide financial statements along with all required note disclosures.

Cause of Condition: The Agency does not have internal controls in place that extend to the determination that the financial statements are in accordance with GAAP.

Effect of Condition: Without internal controls that extend from the trial balance to the financial statements, the Agency is left to rely on the external auditors to identify material differences from GAAP reporting.

Recommendation: I recommend the Agency consider the cost/benefit of internal controls separate from the external auditors, to assure the Agency's financial statements are in accordance with GAAP