

**CITY OF UKIAH
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2008

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JUNE 30, 2008**

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
Members of the City of Ukiah
Ukiah, California 95482

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah, California, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Ukiah 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah as of June 30, 2008 and the respective change 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 June 10, 2009 on our consideration of the City of Ukiah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and other required supplementary information and pages 3 through 13 and 47 through 48, respectively, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Ukiah's basic financial statements. The accompanying schedule of expenditures of federal and other 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*, is not a required part of the basic financial statements. The schedule of expenditures of federal and other awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Davis Hammon & Co.

June 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ukiah (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2008, through descriptions of the financial statements and analysis of the selected information. The final topics discuss some of the City's financial processes and the upcoming budget outlook.

Note: Unless otherwise indicated, all amounts are *expressed in thousands of dollars*.

1. FINANCIAL HIGHLIGHTS

- The City's total net assets increased 10% to \$118,973 from \$108,150 a year ago.
- Governmental net assets ended the year at \$47,976 up 11% from \$43,207 in the prior year.
- Total tax revenue, other governmental revenues and business activity revenues exceeded expenses by \$10,823.
- General Fund revenues exceeded expenditures and other financing sources and uses by \$791.
- Total revenues from all sources were \$55,292 up 5.9% from \$52,209 in the prior year.
- The total cost of all activities was \$44,469 down 4.1% from the prior year at \$46,367.

2. USING THIS ANNUAL REPORT

This annual report consists of four parts – management's discussion and analysis (this portion), the basic financial statements, required supplemental information, and the single audit and other compliance information

The basic financial statements include two kinds of statements that present different views of the City.

(1) Government-wide financial statements, which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the *City as a whole*.

(2) Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's *most significant funds*.

Each of these basic financial statements is further described below:

Reporting the City as a Whole: The Statement of Net Assets and the Statement of Activities

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the City's net assets and changes thereto. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads and other infrastructure assets to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities - All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, sales taxes, Vehicle License Fees (VLF), ambulance fees, transient occupancy taxes and franchise fees finance most of these activities.
- Business (proprietary fund) type activities - The City charges a fee to customers to cover all or most of the cost of the services provided. The City's utility services, airport, golf course, and conference center are reported in this category.
- Component units - The City's governmental activities include the blending of one separate legal entity; The City of Ukiah Redevelopment Agency. Although legally separate, this "component unit" is important because the City is financially accountable for it. Also, the city council members sit as the board of directors for the Ukiah Redevelopment Agency.

Reporting the City's Most Significant Funds: Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two kinds of funds, *governmental* and *proprietary*, use different accounting approaches as explained below.

- *Governmental funds* - Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial* assets that can readily be converted to cash.

The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Governmental funds include normal governmental activities including police, fire, public works, parks, recreation and administration. Specified governmental funds included in the totals account for major activities like street construction and redevelopment projects managed by the government

We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* through reconciling schedules. Following the Balance Sheet on page 17 is an explanation of the changes from accrual based net assets to financial-asset based fund balances. The schedule on Page 20 explains the differences in the *change* in fund balance from current year activity between accrual based and financial-asset based reporting.

- *Business Type (Proprietary.) funds* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

3. FINANCIAL ANALYSIS OF GOVERNMENT WIDE STATEMENTS

The Summary of Net Assets (Table 1) and Changes in Net Assets (Table 2) present the City's governmental and business activities in total for the years ending June 30, 2008 and 2007.

Table 1
Summary of Net Assets
 For the Fiscal Years Ended June 30, 2008 and 2007
(Full Accrual, in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$36,531	\$31,237	\$ 77,166	\$ 92,982	\$113,697	\$124,219
Capital assets	<u>21,427</u>	<u>21,866</u>	<u>114,371</u>	<u>94,166</u>	<u>135,798</u>	<u>116,032</u>
Total assets	<u>57,958</u>	<u>53,103</u>	<u>191,537</u>	<u>187,148</u>	<u>249,495</u>	<u>240,251</u>
Liabilities:						
Long-term debt outstanding	4,955	5,181	114,766	116,851	119,721	122,032
Other liabilities	<u>5,027</u>	<u>4,715</u>	<u>5,774</u>	<u>5,354</u>	<u>10,801</u>	<u>10,069</u>
Total liabilities	<u>9,982</u>	<u>9,896</u>	<u>120,540</u>	<u>122,205</u>	<u>130,522</u>	<u>132,101</u>
Net assets:						
Invested in capital assets net of debt	21,428	21,866	28,606	24,173	50,034	46,039
Restricted	7,078	7,606	2,004	2,015	9,082	9,621
Unrestricted	<u>19,470</u>	<u>13,735</u>	<u>40,387</u>	<u>38,755</u>	<u>59,857</u>	<u>52,490</u>
Total net assets	<u>\$47,976</u>	<u>\$43,207</u>	<u>\$70,997</u>	<u>\$64,943</u>	<u>\$118,973</u>	<u>\$108,150</u>

The City's combined net assets for the fiscal year ended June 30, 2008 were \$118,973. The City accounts for its Utilities, including electric, water and sewer as enterprise funds. The airport, parking district, solid waste disposal site, golf course, conference center and street lighting system are also accounted for as enterprise funds. These enterprise funds are categorized as Business Activities on Table 1.

The City's net assets for governmental activities increased 11% from \$43,207 to \$47,976, while business-type activities net assets increased 9.3% from \$64,943 to \$70,997. Legally unrestricted governmental net assets included assets in special revenue funds received for specific purposes, accumulated for capital projects, designated in redevelopment for capital projects, and designated in redevelopment for outside agencies.

Several transfers are included in the City-wide Statement of Activities. \$934 was transferred to the General Fund from the Electric Utility, in lieu of taxes that would be charged to an outside provider. For FY2005-06 through FY2007-08 this amount is calculated at 6% of electric revenues. Previously, a fixed amount of \$675 was transferred annually. The General Fund also received \$11 from the Electric Fund for the Public Benefits Program and \$85 from non-major capital projects funds for street related projects. A \$126 transfer was made from the Fixed Assets Fund to the Special Projects Fund for future projects.

Table 2
Statement of Change in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	2008	2007
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$5,501	\$4,139	\$28,076	\$26,178	\$33,577	\$30,317
Operating grants and contributions	326	1,498	20	20	346	1,518
Capital grants and contributions	1,911	1,965	822	746	2,733	2,711
General revenues:						
Taxes	14,201	13,533			14,201	13,533
From other agencies not restricted to specific programs	1,229	1,188			1,229	1,188
Use of money and property	450	495	2,756	2,447	3,207	2,942
Total revenues	23,618	22,818	31,674	29,931	55,292	52,209
Expenses:						
General government	3,411	2,905			3,411	2,905
Public safety	8,640	8,091			8,640	8,091
Public works	3,273	3,004			3,273	3,004
Community Development	2,067	1,776			2,067	1,776
Community Services (Parks & Rec.)	2,038	2,045			2,038	2,045
Interest on long-term debt	365	439			365	439
Electric			14,065	18,639	14,065	18,639
Water			3,549	3,094	3,549	3,094
Sewer			3,580	2,956	3,580	2,956
Solid Waste Disposal Site (closed)			428	597	428	597
Street Lighting			157	156	157	156
Airport			1,227	1,047	1,227	1,047
Parking District			199	166	199	166
Golf Course			1,066	1,109	1,065	1,109
Conference Center			404	343	404	343
Total expenses	19,794	18,260	24,675	28,207	44,469	46,367
Increase N.A. before Trfrs	3,824	4,558	6,999	1,284	10,823	5,842
Transfers	945	737	(945)	(737)	-	-
Increase in Net Assets	4,769	5,295	6,054	547	10,823	5,842
Beginning Net Assets	43,207	25,794	64,942	51,633	108,150	77,427
Change in Acctg. Policy		12,165		12,763		24,928
Prior Period Adj.		(47)				(47)
Ending Net Assets	\$47,976	\$43,207	\$70,996	\$64,942	\$118,973	\$108,150

Governmental Activities

Table 3 presents the cost of each of the City’s major governmental programs for FY07-08 and FY06-07.

Table 3
Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2008 and 2007
(Full Accrual, in Thousands)

	Total Cost to Provide Services		Cost Change	Percent Change
	2008	2007		
General Government	\$3,411	\$2,905	\$506	17%
Public Safety	8,640	8,091	549	7%
Public Works	3,273	3,004	269	9%
Parks & Recreation	2,067	2,045	22	1%
Community Development	2,038	1,776	262	15%
Debt service interest	365	439	(74)	-17%
	\$19,794	\$18,260	\$1,534	8%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City’s total governmental costs increased by 8%. The increases in Public Safety, Public Works, Parks & Recreation, Community Development and General Government were offset, in part, by a decrease in Debt Service. Governmental expenses reflect a wide variety of projects and on-going activities, many of which are supported in part by program fees or other funding sources.

The City’s PERS retirement benefits costs increased by \$264 from 2007 to 2008 (to \$2,223 from \$1,959).

General government services include the City Council, City Clerk, City Treasurer, and the City Manager’s office as well as the finance, clerical, legal, and personnel areas that support public safety and all the other city services.

Public Safety is the largest component of general government, mostly in direct wages paid to safety personnel and capital fire & emergency equipment. In police, salaries and overtime increased \$141. Fire salaries and overtime increased \$112.

Public Works primarily consists of streets and public rights of way maintenance. The majority of the increase in expenditures for 2008 resulted from project expenditures of state transportation funds.

Parks and Recreation activities include a wide range of services to the public. Principal activities include maintaining all City parks and other landscaped areas, managing a modern museum, providing a year round calendar of youth and adult recreation programs and operating a public swimming pool. The recreation programs are primarily self-funded through user fees and cooperative use agreements with the school systems and others. Expenses for park operations account for the majority of the cost increases.

Community development is primarily grant funded projects and activities of the redevelopment agency.

Business Type Activities

The City's net assets for business-type activities in continuing operations generated a \$4,606 increase in net assets or 16% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$660 decrease, or -2% in 2007. The Solid Waste Disposal Site has been permanently closed and its current position is presented separately so as to not distort the results of continuing operations presented on Table 4.

Activity	Operating Expenses		Operating Revenue		Increase (decrease) From Operations			
	2008	2007	2008	2007	2008		2007	
Electric	\$14,065	\$18,639	15,988	15,438	1,923	12%	(3,201)	(21)%
Water	3,549	3,094	2,920	2,645	(629)	(22)%	(449)	(17)%
Sewer	3,580	2,956	6,881	5,958	3,301	48%	3,002	50%
Street Lights	157	156	185	184	28	15%	28	15%
Airport	1,226	1,047	1,267	1,115	40	3%	68	6%
Parking	199	166	194	151	(5)	(3)%	(15)	(10)%
Golf Course	1,066	1,109	1,030	1,030	(35)	(3)%	(79)	(8)%
Conference Center	404	343	386	329	(18)	(5)%	(14)	(4)%
Total	<u>\$24,246</u>	<u>\$27,510</u>	<u>\$28,851</u>	<u>\$26,850</u>	<u>\$4,606</u>	<u>16%</u>	<u>\$(660)</u>	<u>2%</u>
<u>Closed Program</u>								
Solid Waste Disposal Site	\$428	\$597	\$67	\$94	\$(362)		\$(503)	

Electricity purchase costs decreased from \$9,268 last year to \$8,566 in FY07-08, while rates charged by the utility were held constant. This reduction is partially attributed to increased power generation at the City owned Lake Mendocino hydroelectric plant.

Annual water revenue was up 10% from the prior year and interest and depreciation expenses increased as a result of a major capital project to increase system peak storage and delivery capacity.

The Conference Center funded its operating expenses, before depreciation, in 2007/2008. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenues.

The Solid Waste Disposal Site was permanently closed in 2001 and federal regulations require the site to be monitored for 30 years with funds set aside for post-closure expenses and contingencies. The City is working with the regulatory agencies to complete the formal closure of the site. This regulatory closure is anticipated in 2009-2010.

4. FINANCIAL ANALYSIS OF THE FUND STATEMENTS

Governmental Funds

The voter approved one-half percent sales tax went into effect in October 2005. This tax accounted for \$2,323 of governmental revenue. Growth in property tax received by the redevelopment agency accounted for significant growth of revenue. The total growth in governmental revenues was 3.2%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues:

Table 5
Revenue Summary: Governmental Funds
 For the Fiscal Years Ended June 30, 2008 and 2007
(Modified Accrual Basis, Stated in Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2008	2007	2008	2007	2008	2007
Revenues:						
Taxes	\$9,530	\$9,119	\$4,671	\$4,413	\$14,201	\$13,532
Licenses and permits	142	209			142	209
Fines, forfeitures & penalties	33	64	96	32	129	96
From other Agencies	1,259	1,297	2,357	2,516	3,616	3,813
Use of money & property	1,170	1,149	1,306	725	2,476	1,874
Charges for current services	825	989	100		925	989
Other	25	85	711	934	736	1,018
Total revenues	\$12,983	\$12,912	\$9,241	\$8,620	\$22,224	\$21,532

Before the revenue from the additional .5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) grew at 5.5%. The Transient Occupancy Tax rate was increased from 8% to 10% effective January 2007. This increase accounts for 1% of the growth in tax revenue. The revenue from the additional .5% local sales tax increased by 2% from FY 2006/07 to FY 2007/08.

General Fund Revenue from Other Agencies includes primarily State of California payments for Motor Vehicle License Fees (MVLFF), which has changed from a monthly reimbursement from the state to a semi-annual shift of property taxes. The State intends this shift to be revenue neutral.

Other Governmental Funds Revenue from Other Agencies includes many government grants which may vary dramatically from year to year. FY05-06 totaled \$1,138, increasing to \$2,516 for FY06-07 then dropping to \$2,357 this year. The largest components of this years funding included \$953 STIP Augmentation, \$400 State of California 1B transportation grant, and CDBG funding of \$250 received for the Plowshares project.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues are \$200 over budget, a positive variance of 2%. Total taxes were 3% above budget, with property taxes up 1% and sales taxes over budget by 2%. The regular sales tax revenue exceeded the budget by \$148 and the local one-half percent sales tax was over budget by \$103.

Total General Fund services finished the year under budget with a total cost savings of 8% or \$1,221. Some savings were the result of continued downward pressure on spending plans.

Before accounting for transfer activity there was a net positive variance of \$1,421. After transfers, the final positive variance in Fund Balance was \$1,416, or 40%.

6. CASH MANAGEMENT

The City contracts with Public Financial Management, Inc. (PFM), a specialist in municipal cash management, to direct its investments and maintains flexibility by utilizing a pooled cash system. Under the pooled cash concept, the City invests the cash of all funds with maturities planned to coincide with cash needs. Cash is invested in certain eligible securities as constrained by law and further limited by the City's investment policy. The goals of the City's investment policy are safety, liquidity and yield. The City Council has appointed an Investment Oversight Committee, chaired by the elected City Treasurer, to direct and monitor the activities of PFM.

7. CAPITAL ASSETS

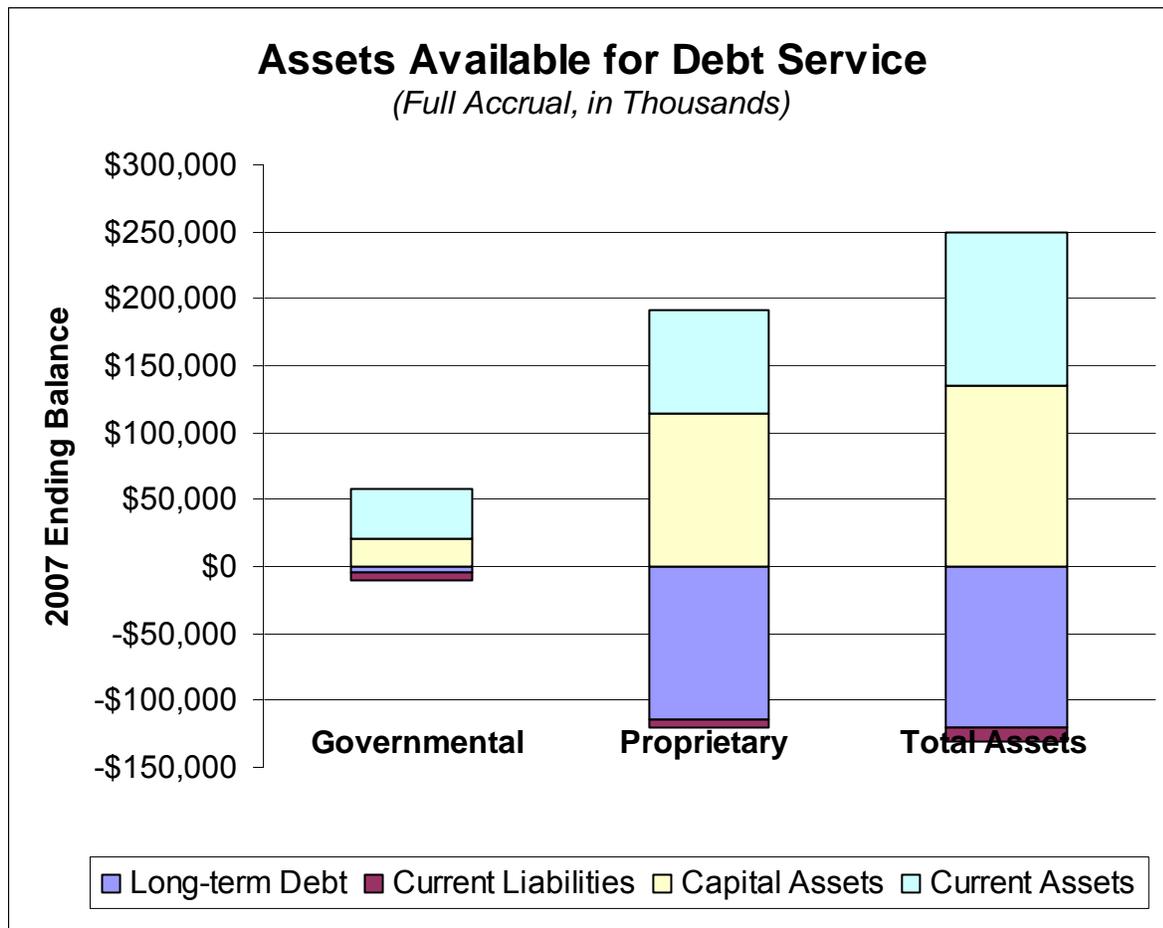
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2008, net capital assets of the governmental activities totaled \$21,428 and the net capital assets of the business-type activities totaled \$114,371. Depreciation on capital assets is recognized in the Government-Wide financial statements but not in the General Fund statements.

The City attempts to minimize debt by reserving current revenue for capital projects. A current expense is recorded and transferred to specific project accounts in either the Equipment Replacement or Special Projects Reserve Funds. A given project may require transfers for several years to accumulate sufficient funding before going forward.

8. CURRENT LIABILITIES AND LONG-TERM DEBT

At year-end, current governmental liabilities are \$5,026 and business-type liabilities are \$5,774. The City had total governmental liabilities totaling \$9,981 and business-type liabilities of \$120,541. Included in these totals are \$4,955 of Redevelopment Agency long-term debt and \$114,767 of business-type debt including the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total liabilities to net assets ratio of 110%, down from 122% in 2007.



9. NEXT YEAR’S BUDGET AND ECONOMIC FACTORS

The City Manager’s Budget Message introducing the City’s 2009 budget resolution provided a concise overview of the economic and budget issues facing the City over the next few years. This extract covers key points:

Estimated Combined Public Safety and General Fund revenues for FY 2008-09 are \$58 below the budgeted revenues for FY 2007-08. The expenditures are \$177 below 07/08 amended budget figures. These amounts include the revenue and expenditures related to the Measure S sales tax which is budgeted to increase by \$76. Property tax is estimated to increase \$10 more than the current fiscal year and the triple flip property tax-in-lieu increasing \$96.

The Measure “S” Sales Tax revenues for 08/09 are projected to be \$2,296. In the budget presentation, this revenue is combined with the General Fund in the “Combined Public Safety and General Fund Summary” and on other summary schedules. Public Safety (Police and Fire) expenditures of \$8,446 are recorded in Fund #105. The General Fund #100 provides the additional funding necessary for the expenditures in excess of the revenue received from Measure “S”.

GOVERNMENTAL FUNDS

Based on the analysis of our sales tax consultants, the budget contains a projected sales tax decrease of \$122 over FY 2007-08 projected actual sales tax amount. The FY 2008-09 budget reflects the difficult year that local governments throughout California are facing.

As discussed in the City Manager’s Budget Message, more and more city governments are developing structural imbalance between the growth in revenue sources and expenditures. Changes implemented after the adoption of the FY 2008-09 budget included reductions in force and a hiring freeze totaling seventeen positions. Additionally, all City employees have experienced a 5% furlough or salary reduction.

Further reductions in operating expenses will be required for FY 09-10 as the economic downturn leads to a reduction in the sales tax and other revenues to the City. Uncertain financial conditions at the State level may have unknown fiscal impacts on the City.

Measure “S” Sales Tax: While this revenue source is part of the General Fund for budget purposes, it will be recorded as a separate fund. The sales tax and interest revenue is projected to be \$2,296 for the 08/09 budget year. Expenditures are broken into two categories: Police Department and Fire Department. Budgeted expenditures are \$8,446. These expenditures are the entirety of the Police and Fire operations, with the additional funding coming from the City’s General Fund #100 to make up the difference between the Measure “S” funding and budgeted expenses. The funding plan behind Measure “S” called for General Fund support of \$5,020 per year.

Park Development Fund: There are three projects in the capital account under Park Development. This includes the completion of Observatory Park, Ukiah Sports Complex renovation to upgrade the lighting system, and construction of the Ukiah Skate Park reimbursed through State Park Bond funds, park development fees, and private donations.

ENTERPRISE FUNDS:

Electric Utility: The Electric Utility expenditures are projected to increase for the new year. The repairs, retrofitting and start-up of the hydro plant were largely completed in 2006-2007 but lack of water in Lake Mendocino has reduced the amount of generated power. A major project for the Electric Department will be to complete detailed design and begin construction of the new Gobbi Street substation.

Water: The final scheduled rate increase occurs in November 2008. A new rate study is anticipated in 2009. Adding to the difficulties facing the City in the next few years is the lack of water brought on by a third year of below average rain fall in both Mendocino County and the state as a whole

Wastewater Operations: We are anticipating completion of the Wastewater Treatment Plant capacity upgrade and rehabilitation project. Bonds were sold and the construction projects were initially budgeted in 2005-2006 and will carry forward until completion. Sewer rates were increased, effective December, 2005 and each July thereafter, through 2009 to repay the bonds. The Council plans to include revenue to assist in covering the cost of the “I and I” repair over the next several years to reduce the influx of water during the winter into the sewer system. The Council has also expressed support in funding continued capital projects at the Treatment Plant.

Golf Course: The golf operation is part of ongoing discussions with the contract operator to streamline operations and control expenses.

Ukiah Valley Conference Center: The changes previously approved by the City Council are showing positive changes in the annual net income of the Conference Center. A positive net income was achieved for FY 06/07 as well as for FY 07/08. Capital costs will continue to be subsidized, as necessary, by the General Fund until the Conference Center is able to provide funding beyond operating expenses.

REDEVELOPMENT AGENCY:

In past years, the Redevelopment Agency has cut costs with the elimination of two positions—the Assistant City Manager and the Deputy Redevelopment Director. The Assistant City Manager was the designated Business Liaison for the City and provided individual assistance and support for the business community. Since the position was eliminated due to budget cuts, there was very little staff time for direct contact on a regular basis. Council expressed strong support for enhanced economic development activity both for retention of our current businesses and to assist interested parties in receiving information about the valley and approved funding an Economic Development Coordinator position that will handle both economic development needs as well as administrative special projects. New for FY 2007/2008, the agency is funding 80% of the cost of a Project and Grant Administrator to oversee economic development related projects and grants. Additionally, 30% of the Finance Controller position was funded by the Agency.

The Agency is required to reserve 20% of the Redevelopment revenue for the Housing allocation. Two years ago, the Council requested that Housing Fund money be reserved to provide funding for a large capital project rather than portioning out the fund balance to many small projects or programs. The projected fund balance for the RDA’s portion of the Housing money at the end of FY 2008/09 is \$1,908. Additionally, the Redevelopment budget is

slowly accumulating funds for projects within the Redevelopment area. Council will be reviewing plans to determine what projects are appropriate for funding. Possible new projects for discussion include development of the NCRA depot property, a Master Plan for the downtown corridor, rehabilitation of State and Main Streets, and parking lot improvements. Additional housing money is reserved for projects identified by Mendocino County and Mendocino College. The balances for these funds are projected to be \$267 and \$806 respectively, at the end of FY 2008/2009.

SUMMARY

The city continues to provide not only the basic services but also many quality-of-life services that enhance our community. Sponsorships, donations and fees for service cover many of our youth sports and recreation programs as well as community events. Successful grant funding has assisted the City in providing new playground equipment in four of our city parks as well as providing the majority of funding for the new skateboard park and upgrade of the swimming pool facility and Anton stadium. We will continue to apply for grants in all categories including bike lane enhancements and transportation funding as they become available. The release of STIP funding from the state has also enhanced our ability to provide public works upgrades to our street and infrastructure systems. As potential growth in the surrounding unincorporated areas continues to impact city services we need to prepare for possible service enhancements. Every decision in regards to expansion of service should be weighed against funding options and efficiencies of scale to ensure that we do not further erode city revenues without equivalent funding for expenditures.

10. CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director, Mr. Gordon Elton (707) 463-6220, Finance Department, City of Ukiah, 300 Seminary Ave, Ukiah, California 95482 or online: at <http://www.cityofukiah.com>.

BASIC FINANCIAL STATEMENTS

**CITY OF UKIAH
STATEMENT OF NET ASSETS
JUNE 30, 2008**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Funds</u>	<u>Total</u>
Cash and investments	\$ 31,304,275	\$ 43,380,459	\$ 74,684,734
Receivables (net)	5,071,807	3,580,307	8,652,114
Internal balances	(459,217)	459,217	-
Restricted Assets:			
Temporarily Restricted:			
Cash with fiscal agent	494,487	27,378,497	27,872,984
Interest receivable		104,284	104,284
Prepaid expenses	4,142		4,142
Deposits	760	4,600	5,360
Inventory		823,525	823,525
Deferred charges	114,319	1,435,569	1,549,888
Capital assets (net of accumulated depreciation)	21,427,557	114,370,947	135,798,504
Total Assets	57,958,130	191,537,405	249,495,535
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	2,033,700	2,104,055	4,137,755
Accrued interest payable	20,237	43,424	63,661
Liabilities payable from restricted assets		1,391,848	1,391,848
Contract retentions payable	93,229		93,229
Deferred revenues	2,649,725		2,649,725
Customer deposits		2,162	2,162
Noncurrent Liabilities:			
Due within one year	230,000	2,232,710	2,462,710
Due in more than one year	4,954,943	114,766,500	119,721,443
Total Liabilities	9,981,834	120,540,699	130,522,533
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	21,427,557	28,606,388	50,033,945
Restricted for:			
Public safety	298,374		298,374
Streets and highways	1,099,771		1,099,771
Community development	856,426		856,426
Low and moderate income housing	2,902,811		2,902,811
Debt service	1,921,109	2,003,618	3,924,727
Unrestricted	19,470,248	40,386,700	59,856,948
Total Net Assets	\$ 47,976,296	\$ 70,996,706	\$ 118,973,002

The notes to financial statements are an integral part of this statement.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue And Changes In Net Assets		Total
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	
Governmental Activities:							
General government	\$ 3,411,370	\$ 1,690,431			\$ (1,720,939)		\$ (1,720,939)
Public safety	8,640,259	953,588	\$ 30,027		(7,656,644)		(7,656,644)
Public works	3,273,011	1,300,523	296,271	\$ 1,602,152	(74,065)		(74,065)
Parks and recreation	2,066,409	588,767		58,552	(1,419,090)		(1,419,090)
Community development	2,037,947	967,723		250,000	(820,224)		(820,224)
Debt service:							
Interest	365,021				(365,021)		(365,021)
Total Governmental Activities	19,794,018	5,501,032	326,298	1,910,704	(12,055,984)	\$ -	(12,055,984)
Business-Type Activities:							
Electric	14,065,295	15,988,232				1,922,937	1,922,937
Water	3,549,376	2,919,950				(629,426)	(629,426)
Sewer	3,579,514	6,243,311		638,000		3,301,797	3,301,797
Disposal site	428,253	66,597				(361,656)	(361,656)
Street lighting	156,813	184,988				28,175	28,175
Airport	1,226,411	1,072,480	10,000	184,113		40,182	40,182
Parking	199,453	184,402	9,905			(5,146)	(5,146)
Golf course	1,065,529	1,030,218				(35,311)	(35,311)
Conference center	404,067	385,670				(18,397)	(18,397)
Total Business-Type Activities	24,674,711	28,075,848	19,905	822,113	-	4,243,155	4,243,155
Total	\$ 44,468,729	\$ 33,576,880	\$ 346,203	\$ 2,732,817	(12,055,984)	4,243,155	(7,812,829)
General Revenues:							
Taxes:							
Property					5,365,559		5,365,559
Sales and use					7,154,547		7,154,547
Property transfer					36,693		36,693
Transient occupancy					753,715		753,715
Business license					335,109		335,109
Franchise					555,281		555,281
From other agencies not restricted to specific programs					1,228,550		1,228,550
Use of money and property					450,344	2,756,158	3,206,502
Transfers					945,545	(945,545)	-
Total General Revenues And Transfers					16,825,343	1,810,613	18,635,956
Change In Net Assets					4,769,359	6,053,768	10,823,127
Net Assets - beginning					43,206,937	64,942,938	108,149,875
Net Assets - Ending					\$ 47,976,296	\$ 70,996,706	\$ 118,973,002

The notes to financial statements are an integral part of this statement.

CITY OF UKIAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Redevelopment Capital Improvement	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and investments	\$ 4,252,324	\$ 10,441,389	\$ 14,646,212	\$ 29,339,925
Cash with fiscal agent - restricted			494,487	494,487
Receivables:				
Accounts (net)	467,314		233,081	700,395
Interest	665,510			665,510
Property taxes	73,887	156,885	156,452	387,224
Grants			944,271	944,271
Loans	5,757		2,332,465	2,338,222
Prepaid expenses	4,142			4,142
Due from other funds	64,779			64,779
Advances due from other funds	878,114			878,114
Total Assets	\$ 6,411,827	\$ 10,598,274	\$ 18,806,968	\$ 35,817,069
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 286,141	\$ 45,085	\$ 396,985	\$ 728,211
Accrued salaries and benefits	528,080		24,617	552,697
Accrued compensated absences	585,994		20,934	606,928
Contract retentions payable			93,229	93,229
Deferred revenues			2,649,725	2,649,725
Due to other funds			78,937	78,937
Advances due to other funds	40,712		1,323,173	1,363,885
Total Liabilities	1,440,927	45,085	4,587,600	6,073,612
Fund Balances:				
Reserved for:				
Encumbrances	238,621	124,212	972,747	1,335,580
Petty cash	1,800			1,800
Long-term receivable	881,118			881,118
Low/Moderate housing			2,900,811	2,900,811
Park development			8,000	8,000
Capital outlay - outside agencies		4,145,523	364,840	4,510,363
Debt service			1,921,109	1,921,109
Unreserved, reported in:				
General fund	3,849,361			3,849,361
Special revenue funds			2,791,552	2,791,552
Capital projects funds		6,283,454	5,260,309	11,543,763
Total Fund Balances	4,970,900	10,553,189	14,219,368	29,743,457
Total Liabilities And Fund Balances	\$ 6,411,827	\$ 10,598,274	\$ 18,806,968	\$ 35,817,069

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
JUNE 30, 2008**

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

Total Fund Balances	\$ 29,743,457
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	45,165,084
Less: Accumulated depreciation	(24,007,692)
Internal service funds are used by management to charge the costs of garage, stores, billing, workers' compensation, public safety dispatch and liability insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	
	2,166,308
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Ukiah Redevelopment Agency capital lease payable	(5,250,000)
Deferred issue costs (will be amortized)	114,319
Bond discount (will be amortized)	65,057
Accrued interest on long-term debt	(20,237)
Net Assets Of Governmental Activities	<u>\$ 47,976,296</u>

The notes to financial statements are an integral part of this statement.

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

<u>REVENUES</u>	<u>General</u>	<u>Redevelopment Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes:				
Property	\$ 694,210	\$ 2,340,212	\$ 2,331,137	\$ 5,365,559
Sales and use	7,154,547			7,154,547
Property transfer	36,693			36,693
Transient occupancy	753,715			753,715
Business license	335,109			335,109
Franchise	555,281			555,281
Licenses and permits	142,036			142,036
Fines, forfeitures, and penalties	32,509		96,288	128,797
From other agencies	1,258,577		2,356,975	3,615,552
Use of money and property	1,170,424	605,487	700,140	2,476,051
Charges for current services	824,657		100,000	924,657
Other	24,980	47,212	663,499	735,691
Total Revenues	12,982,738	2,992,911	6,248,039	22,223,688
 <u>EXPENDITURES</u>				
Current:				
General government	1,860,446		194,650	2,055,096
Public safety	7,965,358		120,925	8,086,283
Street and roads	1,254,202		1,820,854	3,075,056
Parks and recreation	1,895,801		15,245	1,911,046
Community development	137,507	465,467	1,377,155	1,980,129
Debt service:				
Principal			345,000	345,000
Interest	1,403		357,846	359,249
Capital outlay	107,195		403,536	510,731
Total Expenditures	13,221,912	465,467	4,635,211	18,322,590
Excess (Deficiency) of Revenues Over Expenditures	(239,174)	2,527,444	1,612,828	3,901,098
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,030,545		226,717	1,257,262
Transfers out			(311,717)	(311,717)
Total Other Financing Sources (Uses)	1,030,545	-	(85,000)	945,545
Net Change In Fund Balances	791,371	2,527,444	1,527,828	4,846,643
Fund Balances, July 1,	4,179,529	8,025,745	12,691,540	24,896,814
Fund Balances, June 30,	\$ 4,970,900	\$ 10,553,189	\$ 14,219,368	\$ 29,743,457

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Amounts reported for governmental activities in the statement of activities (page 18) are different because:

Net change in fund balances - total governmental funds	\$	4,846,643
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Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay		510,731
Depreciation		(959,099)

The issuance of long-term debt provided current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Principal Repayments:		
Ukiah Redevelopment Agency loan payments		345,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as an expenditures in governmental funds

Accrued interest on long-term debt		4,479
Amortize bond issue costs		(6,533)
Amortize bond premium		(3,718)

Internal service funds are used by management to charge the costs of garage, stores, billing, workers' compensation, public safety dispatch and liability insurance to individual funds. The net expenditures of certain activities of the internal service funds are reported with governmental activities

31,856

Change In Net Assets Of Governmental Activities

\$ 4,769,359

**CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

<u>ASSETS</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Current Assets:							
Cash	\$ 20,751,143	\$ 1,320,162	\$ 12,486,109	\$ 8,263,543	\$ 559,502	\$ 43,380,459	\$ 1,964,350
Receivables:							
Accounts (net)	1,230,596	190,567	335,131		91,081	1,847,375	36,185
Unbilled	919,018	205,982	425,472			1,550,472	
Grants					181,766	181,766	
Property taxes					694	694	
Due from other funds	58,265					58,265	
Deposits		3,800			800	4,600	760
Inventory	753,943	69,582				823,525	
Total Current Assets	23,712,965	1,790,093	13,246,712	8,263,543	833,843	47,847,156	2,001,295
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,078,243	1,490,915	23,809,339			27,378,497	
Accrued interest	2,615	2,164	99,505			104,284	
Other Noncurrent Assets:							
Advances due from other funds	1,012,915					1,012,915	40,712
Unamortized capital debt issue costs	144,294	442,824	848,451			1,435,569	
Capital Assets:							
Land	1,473,798		670,431	699,654	1,829,928	4,673,811	
Land improvements	35,751	129,206	120,290		1,677,335	1,962,582	
Infrastructure	9,275,693	6,909,823	5,357,391		1,233,407	22,776,314	
Buildings and improvements	25,428,776	18,130,288	10,179,727		2,943,142	56,681,933	327,113
Licensed vehicles	1,423,917	373,625	510,766	101,296	191,707	2,601,311	26,574
Machinery and equipment	1,587,589	1,935,807	1,110,045	404,039	294,743	5,332,223	215,508
Less: Accumulated depreciation	(18,006,746)	(5,547,242)	(6,702,812)	(280,049)	(3,365,857)	(33,902,706)	(299,030)
Construction in progress			53,997,554		247,925	54,245,479	
Total Noncurrent Assets	24,456,845	23,867,410	90,000,687	924,940	5,052,330	144,302,212	310,877
Total Assets	48,169,810	25,657,503	103,247,399	9,188,483	5,886,173	192,149,368	2,312,172

continued

The notes to financial statements are an integral part of this statement.

CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
<u>LIABILITIES</u>							
Current Liabilities:							
Accounts payable	113,083	49,428	1,242,461	2,664	294,012	1,701,648	22,990
Accrued salaries and benefits	70,888	38,428	57,208	710	34,862	202,096	59,503
Accrued compensated absences	56,200	48,532	58,704	1,973	34,902	200,311	63,371
Accrued interest payable		17,903	18,690	1,772	5,059	43,424	
Customer deposits					2,162	2,162	
Due to other funds					44,107	44,107	
Current portion of long-term debt		401,419	736,291			1,137,710	
Total Current Liabilities	240,171	555,710	2,113,354	7,119	415,104	3,331,458	145,864
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,095,000					1,095,000	
Accrued interest payable	77,240	202,308	1,112,300			1,391,848	
Total Current Liabilities Payable From Restricted Assets	1,172,240	202,308	1,112,300	-	-	2,486,848	-
Noncurrent Liabilities:							
Advances from other funds					567,856	567,856	
Installment obligation (net of unamortized discount)		13,896,128	74,722,654			88,618,782	
State loans payable		1,876,462	2,653,780			4,530,242	
Revenue bonds payable (net of unamortized discount)	13,450,270					13,450,270	
Estimated landfill closure costs				8,167,206		8,167,206	
Total Noncurrent Liabilities	13,450,270	15,772,590	77,376,434	8,167,206	567,856	115,334,356	-
Total Liabilities	14,862,681	16,530,608	80,602,088	8,174,325	982,960	121,152,662	145,864
<u>NET ASSETS</u>							
Invested in capital assets, net of related debt	6,388,778	5,868,627	10,965,789	942,828	4,440,366	28,606,388	270,165
Restricted for debt service	2,003,618					2,003,618	
Unrestricted	24,914,733	3,258,268	11,679,522	71,330	462,847	40,386,700	1,896,143
Total Net Assets	\$ 33,307,129	\$ 9,126,895	\$ 22,645,311	\$ 1,014,158	\$ 4,903,213	\$ 70,996,706	\$ 2,166,308

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
<u>OPERATING REVENUES</u>							
Charges for current services	\$ 15,949,666	\$ 2,883,418	\$ 6,194,839	\$ 60,000	\$ 2,532,974	\$ 27,620,897	\$ 1,944,742
Licenses and permits					107,504	107,504	
Fines, forfeitures and penalties					76,898	76,898	
Other revenues	38,566	36,532	48,472	6,597	140,382	270,549	1,050,084
Total Operating Revenues	<u>15,988,232</u>	<u>2,919,950</u>	<u>6,243,311</u>	<u>66,597</u>	<u>2,857,758</u>	<u>28,075,848</u>	<u>2,994,826</u>
<u>OPERATING EXPENSES</u>							
Purchased power	8,566,288					8,566,288	
Operations	1,993,110	618,268	1,466,847	79,097	1,687,528	5,844,850	1,511,918
Maintenance		444,411	575,858	279,066	89,836	1,389,171	52,899
Fuels and lubricants					689,590	689,590	6,455
Utilities		357,567	285,900	3,726	285,892	933,085	18,981
General and administration	1,570,991	844,350	766,231	48,476	115,290	3,345,338	250,028
Insurance premiums and deductibles							1,144,250
Depreciation	903,067	588,162	387,485	17,888	150,186	2,046,788	11,280
Total Operating Expenses	<u>13,033,456</u>	<u>2,852,758</u>	<u>3,482,321</u>	<u>428,253</u>	<u>3,018,322</u>	<u>22,815,110</u>	<u>2,995,811</u>
Operating Income	<u>2,954,776</u>	<u>67,192</u>	<u>2,760,990</u>	<u>(361,656)</u>	<u>(160,564)</u>	<u>5,260,738</u>	<u>(985)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>							
Taxes					9,905	9,905	
From other agencies			638,000		194,113	832,113	
Interest income	1,426,690	135,118	678,466	484,225	31,659	2,756,158	32,841
Interest expense and fiscal charges	(1,031,839)	(696,618)	(97,193)		(33,951)	(1,859,601)	
Total Nonoperating Revenues (Expenses)	<u>394,851</u>	<u>(561,500)</u>	<u>1,219,273</u>	<u>484,225</u>	<u>201,726</u>	<u>1,738,575</u>	<u>32,841</u>
Income Before Contributions And Transfers	3,349,627	(494,308)	3,980,263	122,569	41,162	6,999,313	31,856
Transfers out	(945,545)		-			(945,545)	
Change In Net Assets	<u>2,404,082</u>	<u>(494,308)</u>	<u>3,980,263</u>	<u>122,569</u>	<u>41,162</u>	<u>6,053,768</u>	<u>31,856</u>
Total Net Assets - beginning	30,903,047	9,621,203	18,665,048	891,589	4,862,051	64,942,938	2,134,452
Total Net Assets - ending	<u>\$ 33,307,129</u>	<u>\$ 9,126,895</u>	<u>\$ 22,645,311</u>	<u>\$ 1,014,158</u>	<u>\$ 4,903,213</u>	<u>\$ 70,996,706</u>	<u>\$ 2,166,308</u>

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:							
Receipts from customers and users	\$ 15,615,425	\$ 2,832,149	\$ 6,047,221	\$ 66,597	\$ 2,861,135	\$ 27,422,527	\$ 122,218
Receipts from interfund services provided							2,872,608
Payments to suppliers	(10,811,426)	(1,213,948)	(2,279,210)	(257,108)	(1,975,589)	(16,537,281)	(2,113,726)
Payments to employees	(1,140,567)	(680,785)	(462,207)	(35,517)	(638,977)	(2,958,053)	(841,399)
Payments for interfund services provided	(565,319)	(330,039)	(310,176)	(1,620)	(154,149)	(1,361,303)	
Net Cash Provided (Used) By Operating Activities	<u>3,098,113</u>	<u>607,377</u>	<u>2,995,628</u>	<u>(227,648)</u>	<u>92,420</u>	<u>6,565,890</u>	<u>39,701</u>
Cash Flows From Noncapital Financing Activities:							
Property taxes and subventions					9,893	9,893	
From other agencies					10,000	10,000	
Payments on advances from other funds	54,967				(1,572)	53,395	11,149
Transfers in(out)	(945,545)					(945,545)	
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(890,578)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,321</u>	<u>(872,257)</u>	<u>11,149</u>
Cash Flows From Capital and Related Financing Activities:							
Acquisition and construction of capital assets	(1,535,700)	(76,034)	(18,685,795)		(121,051)	(20,418,580)	(21,414)
Capital grants					163,568	163,568	
Principal paid on capital debt	(1,030,000)	(387,361)	(326,760)			(1,744,121)	
Interest paid on capital debt	(988,675)	(691,841)	(3,436,133)		(31,382)	(5,148,031)	
Trustee fees	(5,412)					(5,412)	
From other agencies			638,000			638,000	
Advances from other funds					(44,107)	(44,107)	
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(3,559,787)</u>	<u>(1,155,236)</u>	<u>(21,810,688)</u>	<u>-</u>	<u>(32,972)</u>	<u>(26,558,683)</u>	<u>(21,414)</u>
Cash Flows From Investing Activities:							
Interest on investments	1,431,622	138,654	2,416,963	484,225	31,659	4,503,123	32,841
Net Cash Provided (Used) By Investing Activities	<u>1,431,622</u>	<u>138,654</u>	<u>2,416,963</u>	<u>484,225</u>	<u>31,659</u>	<u>4,503,123</u>	<u>32,841</u>
Net Increase (Decrease) In Cash	79,370	(409,205)	(16,398,097)	256,577	109,428	(16,361,927)	62,277
Cash Balance - beginning	22,750,016	3,220,282	52,693,545	8,006,966	450,074	87,120,883	1,902,073
Cash Balance - ending	<u>\$ 22,829,386</u>	<u>\$ 2,811,077</u>	<u>\$ 36,295,448</u>	<u>\$ 8,263,543</u>	<u>\$ 559,502</u>	<u>\$ 70,758,956</u>	<u>\$ 1,964,350</u>

continued

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Reconciliation of Cash Balance:							
Cash	\$20,751,143	\$1,320,162	\$12,486,109	\$8,263,543	\$559,502	\$43,380,459	\$1,964,350
Restricted cash with fiscal agent	2,078,243	1,490,915	23,809,339			27,378,497	
Cash Balance - ending	<u>\$22,829,386</u>	<u>\$2,811,077</u>	<u>\$36,295,448</u>	<u>\$8,263,543</u>	<u>\$559,502</u>	<u>\$70,758,956</u>	<u>\$1,964,350</u>
Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:							
Operating income (loss)	\$2,954,776	\$67,192	\$2,760,990	(\$361,656)	(\$160,564)	\$5,260,738	(\$985)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:							
Depreciation	903,067	588,162	387,485	17,888	150,186	2,046,788	11,280
Decrease (Increase) in receivables	(372,807)	(87,801)	(196,090)		3,377	(653,321)	(5,278)
Decrease (Increase) in inventory	(53,257)	(3,003)				(56,260)	3,843
Decrease (Increase) in payables	(333,666)	37,554	43,243	116,120	99,421	(37,328)	30,841
Amortization		5,273				5,273	
Net Cash Provided (Used) By Operating Activities	<u>\$3,098,113</u>	<u>\$607,377</u>	<u>\$2,995,628</u>	<u>(\$227,648)</u>	<u>\$92,420</u>	<u>\$6,565,890</u>	<u>\$39,701</u>
Non-Cash Transactions:							
Amortize capital debt issue costs	\$14,429	\$18,835	\$30,667			\$63,931	
Amortize capital debt discount(premium)	28,473	(4,084)	(2,265)			22,124	
Accrue additional landfill closure/postclosure costs				\$126,039		126,039	

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

<u>ASSETS</u>	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
Assets:		
Cash and investments	\$ 2,249,780	\$ 3,875,266
Receivables:		
Accounts (net)	25,599	12,495
 Total Assets	 <u>2,275,379</u>	 <u>3,887,761</u>
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable	10,117	155,398
Utility and other deposits	974,327	
Due to Ukiah Valley Sanitation District		3,115,499
Due to Solid Wastes Systems		486,016
Due to M.E.S.A.		73
Due to Russian River JPA		130,775
 Total Liabilities	 <u>984,444</u>	 <u>\$ 3,887,761</u>
<u>NET ASSETS</u>		
Held in trust for other purposes	<u>\$ 1,247,541</u>	

The notes to financial statements are an integral part of this statement.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

1) Summary of Significant Accounting Policies

A) Reporting Entity

The City of Ukiah was incorporated March 8, 1876 under the applicable laws and regulations of the State of California. The City operates under a Council–City Manager form of government and provides a variety of services including police, fire fighting and medical emergency, sewage treatment, water treatment, electric power, street lighting and maintenance, parks and recreation, municipal golf course, conference center, and redevelopment activities. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations. The City has no component units that require discrete presentation.

Blended Component Units. The Ukiah Redevelopment Agency was established in 1975 under the provisions of Community Redevelopment Law §33000 of California Health and Safety Code. The Agency is governed by a Commission comprised of the members of the Ukiah City Council. The Agency's boundaries are within Ukiah's city limits and activities of the Agency benefit the citizens of Ukiah. The activities of the Agency are reported in the City's special revenue, debt service and capital projects funds. Complete financial statements of the Agency can be obtained directly from the City of Ukiah, Civic Center, 300 Seminary Avenue, Ukiah, CA 95482.

The Parking District #1 is a special district, primarily located in Ukiah's downtown area, is administered and accounted for by the City. The Parking Commission is appointed by the Ukiah City Council and acts as an advisory board to the Council in District matters. The District is reported as an enterprise fund. The District does not prepare separate financial statements.

B) Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information of all the nonfiduciary activities of the City and its component units. 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 revenues. *Direct expenses* are those clearly identifiable with a specific function or segment. *Program revenues* include 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 contributions 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 revenues are reported instead as *general revenues*.

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.

C) Measurement Focus, Basis Of Accounting, And Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The *Redevelopment Capital Improvement Fund* is a capital projects fund and accounts for the activities related major projects of the Ukiah Redevelopment Agency.

The City reports the following major proprietary funds:

The *Electric Fund* accounts for the activities of the City's electric generation and distribution operations. The *Water Fund* accounts for the activities of the City's water treatment and distribution operations. The *Sewer Fund* accounts for the activities of the City's sewage collection and treatment operations. The *Disposal Fund* accounts for the activities of the City's solid waste landfill operations.

Additionally, the City reports the following fund types:

Internal Service Funds account for garage (vehicle maintenance), stores (purchasing), public safety dispatch, utility billing, workers' compensation and liability insurance services provided to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust for use by other organizations and departments. All resources of the fund, including any earnings on the invested resources, may be used to support the organization's or department's activities. There is no requirement that any portion of these resources be preserved as capital.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both 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 this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary fund functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the City's electric, water, sewer, golf and street lighting funds and the City's internal service funds are charges to customers for sales and services. Principal operating revenues of the City's airport, disposal and conference center funds includes charges to customers for sales and services and rental fees. The parking district fund's principal operating revenues include the sale of parking permits to customers and parking fines. The City also recognizes as operating revenue tap fees intended to recover the cost of connecting new customer to the City's utilities. Operating expenses for the enterprise funds and internal service funds include cost of power purchases, fuels and lubricants, operations, maintenance, utilities, insurance premiums and deductibles, general and administration, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

D) Assets, Liabilities, And Net Assets Or Equity

1) Cash And Investments

Investments for the City and its component units are reported at fair value.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2) Receivables And Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/from other funds" (i.e. the current portion of Interfund loans) or "advances to/from other funds" (i.e. the non-current portion of Interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

An estimated receivable of \$1,550,472 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2008. The receivable, and increase to related revenue accounts, was arrived at by taking the cycle billings the City sent the customers in July and prorating for the number of days applicable to the fiscal year ended June 30, 2008.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$507,330, including \$110,188 for emergency response billings and booking fees, and were determined based on an analysis of historical trends.

Property taxes for the current year were attached as an enforceable lien as of January 1st and were levied on July 1st. Taxes are due in two equal installments on November 1st and February 1st. The City relies on the competency of the County of Mendocino Assessor's office to properly assess, collect and distribute property taxes.

3) Inventories And Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. An annual charge is made to various City funds to assist in the financing of warehouse operations in addition to being billed as inventory is issued.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4) Restricted Assets

Certain proceeds of the City's Electric Fund revenue bonds; the Water Fund and Sewer Fund installment obligations (as well as certain resources set aside for their repayment); and the Ukiah Redevelopment Agency capital lease are classified as restricted assets on the balance sheet because their use is limited by applicable bond or other covenants.

5) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the governmental-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Interest is capitalized on construction of major assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. For the year ended June 30, 2008, net interest expense of \$1,699,274 was capitalized in the Sewer Fund for the wastewater treatment plant upgrade project.

Property, plant and equipment of the City are depreciated using the straight-line method using the following useful lives:

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

	Years
Land improvements	20 - 40 years
Buildings and improvements	30 - 60 years
Infrastructure	30 - 60 years
Licensed vehicles	5 - 10 years
Machinery and equipment	5 - 20 years

6) Compensated Absences

It is the City's policy to allow an employee to accumulate no more than two years vacation. Full time City employees are entitled to sick leave with full pay due to absence resulting from illness or injury to the extent of the amount earned. There is no liability for unpaid sick leave since the government does not have a policy to pay any amount when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and fund financial statements.

7) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of assets. Long-term debt issue discounts and premiums, as well as issue costs, are deferred and amortized over the life of the debt using the straight-line method, which is not materially different from the effective interest method. Bonds payable and installment obligations are reported net of the unamortized discounts and premiums. Debt issue costs are reported as deferred charges and amortized over the term of the related debt.

8) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative management plans for future use of financial resources and are subject to change.

2 Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted all governmental funds except the certain minor Special Revenue Funds including: Asset Seizure (Drug/Alcohol), H&S Education, Federal Assets Seizure, Storm Drain, Federal Emergency Shelter Grant, EDBG 94-333 Revolving Loan, Off System Road, and FEMA Grant. Budgets are adopted on a basis consistent with generally accepted accounting principals. Annually, each City department submits a request for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Before June 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations totaling \$11,685,382 were authorized.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B) Excess Of Expenditures Over Appropriations

For the year ended June 30, 2008, no fund had expenditures exceeding appropriations.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

C) Deficit Fund Equity

The following Special Revenue Funds had deficit fund balances as of June 30, 2008. These deficits were primarily caused by expenditures in excess of grant awards. Management is monitoring each fund's activities to ensure improved financial position. The deficits do not represent a significant financial burden.

Deficit Fund Equities:	
Local Law Enforcement Block Grant	\$ 14,275
Downtown Business Improvement	(4,400)

3) Detailed Notes On All Funds

A) Cash And Investments

Cash and investments are reported in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 74,684,734
Restricted cash with fiscal agent	27,872,984
Statement of Fiduciary Net Assets:	
Cash and investments	6,125,046
Total Cash and Investments	<u>\$ 108,682,764</u>

Cash and investments consist of the following:

Cash on hand	\$ 1,950
Deposits with financial institutions	3,770,141
Investments	104,910,673
Total Cash and Investments	<u>\$ 108,682,764</u>

Authorized Investments – City Investment Policy

The table below identifies the types of investments that are authorized by the City's investment policy:

Authorized Investment Type	Maximum Maturity	Maximum Total of Portfolio	Maximum Investment On One Issuer
City of Ukiah Bonds	5 years	No limit	10%
U.S. Treasuries (notes, bonds, bills and other indebtedness)	5 years	No limit	None
Obligations of the State of California (warrants, notes and bonds)	5 years	No limit	10%
Local Agency Obligations (bonds, notes and other indebtedness)	5 years	No limit	10%
U.S. Agency Obligations	5 years	No limit	None
Bankers Acceptances	180 days	40%	10%
Commercial Paper (rated "A" or better)	180 days	15% (1)	10%
Negotiable Certificates	5 years	30%	10%
Repurchase Agreements	365 days	No limit	10%
Reverse Repurchase Agreements (2)	92 days	20%	10%
Medium-Term Notes	5 years	30%	10%
Money Market Funds (highest rating)	5 years	20%	10%
Local Agency Investment Fund	5 years	\$40 million	10%
Time Deposits	5 years	25%	10%
Mortgage-Backed and Asset-Backed Securities (rated "AA" or better)	5 years	20%	10%

(1) = 30% if dollar weighted average maturity of commercial paper does not exceed 31 days.

(2) = Requires prior City Council approval before investment is purchased.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

Authorized Investments – Debt Trustee Agreements

Investments held by bond fiscal agents (trustees) are governed by the provisions of the underlying indenture agreements rather than the general provisions of the City's investment policy or California Government Code. The indenture agreements do not specifically identify maximum maturity and maximum investment provisions. The indenture agreements do identify the following permitted investments:

- U.S. Government Obligations
- U.S. Agency Obligations
- Money Market Funds (rated AAAM-G, AAAM or AAM)
- Demand or Time Deposits (FDIC insured or fully secured)
- Bonds or Notes (must have one of two highest ratings)
- Bankers Acceptances
- Commercial Paper
- Repurchase Agreements

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 manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for City's operations. The City's target maximum average maturity to control overall exposure to interest rate risk is 2.5 years

As of June 30, 2008, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 9,504,675	1.56
U.S Treasury Bonds and Notes	8,935,311	0.42
U.S. Government Agency Bonds and Notes	42,551,518	1.74
Commercial Paper	614,871	0.00
State of California GO Bonds	1,197,936	0.05
Money Market Funds	1,317	0.00
State Investment Pool (LAIF)	14,232,061	0.48
Held By Bond Trustee:		
Money Market Funds	4,065,967	0.00
FSA Capital Management Services LLC	23,807,017	0.75
Total Fair Value	<u>\$ 104,910,673</u>	
Portfolio Weighted Average Maturity		<u>1.12</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2008, the City's investments were in compliance with the ratings required by the City's investment policy and indenture agreements.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

Investment Type	Fair Value	Exempt From Disclosure	Year End Rating			Not Rated
			AAA/AAAm	AA+/AA/AA-	A+/A-1+	
Corporate Bonds and Notes	\$ 9,504,675		\$ 1,044,822	\$ 6,781,221	\$ 1,678,632	
U.S Treasury Bonds and Notes	8,935,311	\$ 8,935,311				
U.S. Government Agency Bonds and Notes	42,551,518		42,551,518			
Commercial Paper	614,871				614,871	
State of California GO Bonds	1,197,936				1,197,936	
Money Market Funds	1,317		1,317			
State Investment Pool	14,232,061					\$ 14,232,061
Held By Bond Trustee:						
Money Market Funds	4,065,967		4,065,967			
FSA Capital Management Services LLC	23,807,017					23,807,017
Total Fair Value	\$ 104,910,673	\$ 8,935,311	\$ 47,663,624	\$ 6,781,221	\$ 3,491,439	\$ 38,039,078

Concentrations of Credit Risk

With the exception of securities of the U.S. Government and its Agencies, the investment policy of the City limit the amount that can be invested in any one issuer to no more than 10% of the total portfolio. Investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total City investments are as follows:

Investment Type	Issuer	Fair Value
U.S. Federal Agency Security	FHLMC	\$ 4,012,095

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that in the event of bank failure, the City's deposits may not be returned to the City or the City will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, the City 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 deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by the a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110% of the total deposits by 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. It is the policy of the City not to waive these requirements.

At year-end, the City's deposits with financial institutions totaled \$5,415,342, of which \$300,000 was covered by federal depository insurance. The \$5,115,342 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2008, City investments in the following investment types were held by the same institution that was used by the City to buy the securities:

Corporate Bonds and Notes	\$ 9,504,675
U.S Treasury Bonds and Notes	8,935,311
U.S. Government Agency Bonds and Notes	42,551,518
Commercial Paper	614,871
State of California GO Bonds	1,197,936
Money Market Funds	1,317

Investment in State Investment Pool

The Local Agency Investment Pool (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The City may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the

CITY OF UKIAH
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Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to the dollars held.

B) Capital Assets

Construction And Other Commitments

The City has active construction projects as of June 30, 2008. The projects include expansion and upgrade of the water treatment plant and sewage treatment plant. The City has also entered into an agreement to develop new citywide financial software. At year-end the City's commitments with contractors are as follows:

	Expended To-Date	Remaining Commitment
Sewage treatment plant expensio	\$ 53,960,681	\$ 15,327,915

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Government Activities:				
Nondepreciable Capital Assets:				
Land	\$ 1,631,073			\$ 1,631,073
Construction in progress	804,725	\$ 23,165		827,890
Total Nondepreciable Capital Assets	2,435,798	23,165	\$ -	2,458,963
Depreciable Capital Assets:				
Land improvements	861,675			861,675
Infrastructure	30,727,991			30,727,991
Buildings	5,947,976			5,947,976
Licensed vehicles	2,772,972	257,054	(833)	3,030,859
Machinery and equipment	2,454,887	251,926		2,706,813
Total Depreciable Capital Assets	42,765,501	508,980	(833)	43,275,314
Less: Accumulated Depreciation:				
Land improvements	(733,983)	(9,430)		(743,413)
Infrastructure	(17,484,497)	(472,738)		(17,957,235)
Buildings	(1,977,476)	(148,643)		(2,126,119)
Licensed vehicles	(1,723,281)	(192,073)	833	(1,916,187)
Machinery and equipment	(1,416,271)	(147,495)		(1,563,766)
Total Accumulated Depreciation	(23,335,508)	(970,379)	833	(24,306,720)
Depreciable Capital Assets, net	19,429,993	(461,399)	-	18,968,594
Governmental Activities Capital Assets, net	\$ 21,865,791	\$ (438,234)	\$ -	\$ 21,427,557

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Business-Type Activities:	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Nondepreciable Capital Assets:				
Land	\$ 3,200,013	\$ 1,473,798		\$ 4,673,811
Construction in progress	34,137,810	20,536,445	\$ 428,776	54,245,479
Total Nondepreciable Capital Assets	<u>37,337,823</u>	<u>22,010,243</u>	<u>428,776</u>	<u>58,919,290</u>
Depreciable Capital Assets:				
Land improvements	1,962,582			1,962,582
Infrastructure	22,776,314			22,776,314
Buildings and improvements	56,253,157	428,776		56,681,933
Licensed vehicles	2,121,533	479,778		2,601,311
Machinery and equipment	5,570,092	69,723	307,592	5,332,223
Total Depreciable Capital Assets	<u>88,683,678</u>	<u>978,277</u>	<u>307,592</u>	<u>89,354,363</u>
Less: Accumulated Depreciation:				
Land improvements	(893,506)	(73,223)		(966,729)
Infrastructure	(10,562,632)	(477,191)		(11,039,823)
Buildings and improvements	(16,360,957)	(1,125,459)		(17,486,416)
Licensed vehicles	(1,419,034)	(179,428)	24,952	(1,623,414)
Machinery and equipment	(2,619,789)	(191,487)	(24,952)	(2,786,324)
Total Accumulated Depreciation	<u>(31,855,918)</u>	<u>(2,046,788)</u>	<u>-</u>	<u>(33,902,706)</u>
Depreciable Capital Assets, net	<u>56,827,760</u>	<u>(1,068,511)</u>	<u>307,592</u>	<u>55,451,657</u>
Business-Type Activities Capital Assets, net	<u>\$ 94,165,583</u>	<u>\$ 20,941,732</u>	<u>\$ 736,368</u>	<u>\$ 114,370,947</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:		
General government		\$ 573,978
Public safety		208,365
Streets		86,079
Parks		70,391
Community development		31,866
Total Depreciation Expense - Governmental Activities		<u>\$ 970,679</u>
Business-Type Activities:		
Electric		\$ 903,067
Water		588,162
Sewer		387,485
Disposal site		17,888
Airport		82,951
Parking		1,195
Golf course		17,691
Conference center		48,349
Total Depreciation Expense - Business-Type Activities		<u>\$ 2,046,788</u>

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C) Interfund Receivables, Payables And Transfers

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2008 is as follows:

Due To(From) Other Funds	Due From	Due To
General Fund	\$ 64,779	
Electric Fund	58,265	
Nonmajor governmental funds		\$ 78,937
Nonmajor enterprise funds		44,107
Total Due To(From) Other Funds	<u>\$ 123,044</u>	<u>\$ 123,044</u>
Advances Due To(From) Other Funds	Due From	Due To
General Fund	\$ 878,114	\$ 40,712
Electric Fund	1,012,915	
Nonmajor governmental funds		1,323,173
Nonmajor business-type funds		567,856
Internal service fund	40,712	
Total Advances Due To(From) Other Funds	<u>\$ 1,931,741</u>	<u>\$ 1,931,741</u>

Long-term advances to the Ukiah Redevelopment Agency (nonmajor governmental fund) from the General and Electric funds are due upon demand, but a scheduled to be repaid over the next six (6) years. The Liability Insurance Fund made a long-term advance to the General Fund that will be repaid over the next three (3) years. The General Fund made an advance to the Golf Fund to pay-off a capital lease. The advance will be repaid in annual installments ranging from \$40,000 to \$85,000 (plus applicable interest) through the year 2018, and \$44,532 has been classified as a current liability.

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$ 1,030,545	
Electric Fund		\$ 945,545
Nonmajor Special Revenue Funds	100,717	88,107
Nonmajor Capital Projects Funds	126,000	223,610
Total Transfers In(Out)	<u>\$ 1,257,262</u>	<u>\$ 1,257,262</u>

A \$934,067 transfer to the General Fund represents payments in-lieu of taxes by the Electric Department. The General Fund received \$85,000 from non-major capital projects funds for street-related projects, and \$11,478 from the Electric Fund for the Public Benefits Program.

The non-major special revenue 1998 STIP Augmentation Fund received \$10,909 from the 2106 Gas Tax Fund, \$73,740 from the 2107 Gas Tax Fund and \$3,458 from the Traffic Congestion Fund to provide funding for a street improvement project. The non-major special revenue SB325 Reimbursement Fund received \$12,610 from the Special Projects Fund (a non-major capital projects fund) for future street projects.

A \$126,000 transfer was made from the Fixed Asset Fund transferred to the Special Projects Fund for future projects, both are non-major capital projects funds.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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D) Long-Term Debt

Revenue Bonds. The City has issued bonds where the City pledges revenue derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, excluding an unamortized discount of \$284,730, at June 30, 2008 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$14,830,000

Installment Obligations. The City has entered into two (2) separate agreements with the Association of Bay Area Governments (ABAG) whereby ABAG issued revenue bonds to provide resources for the City to acquire and construct capital improvements to the City's water treatment plant and wastewater treatment plant. The bonds are an obligation of ABAG and are payable solely from and secured by revenues that consist primarily of payments on two (2) installment obligations of the City. The installment obligations of the City are as follows:

Water Treatment Plant – Dated September 1, 2005 the original amount of the obligation was \$14,355,000 and is secured with a pledge of net revenues from the City's water system. The obligation principal is payable in annual installments beginning September 1, 2007 ranging from \$280,000 to \$845,000 through September 1, 2035. Interest payments commenced March 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2008 the installment obligation liability outstanding excluding the unamortized premium of \$111,128 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 14,075,000

Wastewater Treatment Plant – Dated March 1, 2006 the original amount of the obligation was \$75,060,000 and is secured with a pledge of net revenues from the City's wastewater system. The obligation principal is payable in annual installments beginning March 1, 2009 ranging from \$400,000 to \$4,690,000 through March 1, 2036. Interest payments commence September 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2008 the installment obligation liability outstanding excluding the unamortized premium of \$62,654 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 75,060,000

Department of Water Resources Loans. The City has obtained two (2) loans from the California Department of Water Resources to finance an upgrade of the water treatment plant and to finance an upgrade of the wastewater treatment plant to comply with safe drinking water standards.

Water Treatment Plant – The maximum loan amount is \$3,599,009 and is payable over 30 years. At June 30, 2008, the balance of the loan was \$1,987,881. Principal and interest are payable semi-annually on April 1, and October 1, with the interest rate being 3.6024%. Loan payments will be made exclusively from revenues received from assessments and user charges of the treatment plant.

Wastewater Treatment Plant – The maximum loan amount is \$6,592,944, payable over 20 years. At June 30, 2008, the balance of the loan was \$2,990,071. Principal and interest are payable annually with the interest rate being 3.0%.

Ukiah Redevelopment Agency Tax Allocation Refunding Bonds, Series 2007. On April 18, 2007, the Ukiah Redevelopment Agency (RDA) issued \$5,595,000 in tax allocation bonds to refinance a loan agreement between the RDA and the Redwood Empire Financing Authority. The bond series is comprised of \$4,310,000 in serial bonds maturing in annually on December 1, 2007 through the year 2020, and \$1,285,000 in term bonds maturing on December 1, 2023. The serial bonds require annual principal payments ranging from \$230,000 to \$390,000. Interest rates on the serial bonds range from 3.75% to 4.70%, and the term bonds carry an interest rate of 4.75%. All interest is to be paid semi-annually.

**CITY OF UKIAH
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Landfill Closure And Postclosure Costs. As more fully discussed in Note 5(D), long-term liabilities include \$8,041,167 in accrued landfill closure and postclosure costs. These liabilities are not included in the following discussion of debt service requirements and changes in long-term liabilities.

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Government Activities:					
Tax Allocation Bonds	\$ 5,595,000		\$ 345,000	\$ 5,250,000	\$ 230,000
Deferred amounts:					
Issuance discounts	(68,775)		(3,718)	(65,057)	
Governmental Activities Long-Term Liabilities	<u>\$ 5,526,225</u>	<u>\$ -</u>	<u>\$ 341,282</u>	<u>\$ 5,184,943</u>	<u>\$ 230,000</u>
	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Business-Type Activities:					
Electric revenue bonds payable	\$ 15,860,000		\$ 1,030,000	\$ 14,830,000	\$ 1,095,000
Deferred amounts:					
Issuance discounts	(313,203)		(28,473)	(284,730)	
Net revenue bonds payable	<u>15,546,797</u>	<u>\$ -</u>	<u>1,001,527</u>	<u>14,545,270</u>	<u>1,095,000</u>
Installment obligations payable:					
Water treatment plant	14,355,000		280,000	14,075,000	290,000
Wastewater treatment plant	75,060,000			75,060,000	400,000
Deferred amounts:					
Issuance premiums	180,132		6,350	173,782	
Net installment obligations payable	<u>89,595,132</u>	<u>-</u>	<u>286,350</u>	<u>89,308,782</u>	<u>690,000</u>
State loans:					
Water Resources - Water Treatment	2,095,242		107,361	1,987,881	111,419
Water Resources - Sewer Treatment	3,316,831		326,760	2,990,071	336,291
Total State loans	<u>5,412,073</u>	<u>-</u>	<u>434,121</u>	<u>4,977,952</u>	<u>447,710</u>
Landfill closure and post-closure	<u>8,041,167</u>	<u>126,039</u>	<u>-</u>	<u>8,167,206</u>	<u>-</u>
Total Business-Type Activities Long-Term Liabilities	<u><u>\$ 118,595,169</u></u>	<u><u>\$ 126,039</u></u>	<u><u>\$ 1,721,998</u></u>	<u><u>\$ 116,999,210</u></u>	<u><u>\$ 2,232,710</u></u>

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Debt service requirements to maturity, including the loans payable by the Ukiah Redevelopment Agency, but excluding the landfill closure and post-closure liability, are presented on the following schedules.

Governmental Activities		
Year Ended June 30,	Tax Allocation Bonds	
	Principal	Interest
2009	\$ 230,000	\$ 238,590
2010	235,000	227,873
2011	250,000	214,535
2012	265,000	200,373
2013	275,000	185,522
2014-2018	1,585,000	725,590
2019-2023	1,960,000	335,400
2024-2028	450,000	10,350
	\$ 5,250,000	\$ 2,138,233

Business-Type Activities						
Year Ended June 30,	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,095,000	\$ 926,875	\$ 447,710	\$ 160,319	\$ 690,000	\$ 3,938,023
2010	1,165,000	858,438	461,849	146,180	1,500,000	3,910,223
2011	1,240,000	785,625	476,438	131,592	1,910,000	3,850,023
2012	1,325,000	708,125	491,490	116,539	1,980,000	3,773,422
2013	1,410,000	625,312	507,022	101,007	2,045,000	3,694,122
2014-2018	8,595,000	1,681,250	1,920,837	267,324	11,470,000	17,174,030
2019-2023			672,606	55,538	14,095,000	14,611,902
2024-2028					17,550,000	11,236,761
2029-2033					22,025,000	6,824,565
2034-2038					15,870,000	1,463,925
	\$ 14,830,000	\$ 5,585,625	\$ 4,977,952	\$ 978,499	\$ 89,135,000	\$ 70,476,996

E) Segment Information

As discussed previously, the City has issued revenue bonds to finance improvements in its electric department, and obtained State loans and incurred installment obligations to finance improvements in its water and sewer departments. These departments were all determined to be major funds for financial reporting purposes and required segment information is presented in the proprietary fund financial statements.

4) Other Information

A) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City provides property, liability, and worker's compensation insurance through the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and insurance program for several Northern California municipalities. The City pays quarterly and annual premiums to the REMIF for its general insurance coverage. The joint powers formation agreement of the REMIF provides that the REMIF will be self-sustaining through member premiums for liability insurance and will reinsure through commercial companies for other coverage.

**CITY OF UKIAH
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REMIF is a risk sharing, self-funded pool which is a direct purchase program. The REMIF cost sharing pool provides coverage between the City's deductible and \$500,000 (liability program) and \$1,000,000 (workers' compensation program). Losses in excess of the REMIF cost sharing pool limits are covered by REMIF through the California Joint Powers Risk Management Authority and commercial insurance policies. Losses limits are \$25,000,000 (liability), \$200,000,000 (property), \$20,000,000 (boiler and machinery), \$1,500,000 (auto) and \$3,000,000 (workers' compensation) – all per occurrence. Losses exceeding these limits are the responsibility the City.

The City's deductibles are \$10,000 for worker's compensation, property and auto losses, and fidelity; \$25,000 for liability losses; \$5,000 for boiler and machinery losses; and \$100,000 or 5% of building value for earthquake and flood losses - all per occurrence.

Separate internal service funds are maintained by the City for the City's deductibles and allocated share of pooled costs noted above. The total cash and investments held in these funds at June 30, 2008, was \$1,595,683 which management believes is adequate to finance the City's share of any losses.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident, coverage of the Municipal Airport and bonding of certain employees and elected officials.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B) Related Organizations

The City is a member of various joint powers authorities that provide goods or services to the City and other authority members. Under the criteria established by GASB-14, the City does not have sufficient authority, influence or accountability over these entities to incorporate them in this annual report. Additionally, the City has determined that it has no ongoing financial interest or responsibility for any of these organizations as defined by GASB-14. The names and general functions of these joint powers are as follows:

Northern California Power Agency (NCPA) - Membership consists of eleven municipal electric utilities, a port authority, an irrigation district, a public utility district, a transportation district, and two other associate member entities. The NCPA is generally empowered to purchase, generate, transmit, distribute, and sell electrical energy. Members participate in the projects of the Agency on an elective basis. A Commission comprised of one representative for each member governs the NCPA.

The City is currently involved in several hydroelectric, geothermal and other energy related projects as a member of this agreement. The NCPA is financed by contributions from member cities, government grants and debt. The City is committed to provide substantial additional financial support for its portion of the actions and projects of the NCPA. During the year ended June 30, 2008, the City paid \$8,566,287 to the NCPA for power supplied by the agency.

The NCPA holds certain funds under a separate member custodial agreement - the general operating reserve. The purpose of the reserve is to allow members to fund all, or a portion, of the contingent liabilities that the NCPA faces at any given time, while providing the individual member with the flexibility to draw upon their part of the reserve, as each member individually deems appropriate. At June 30, 2008, the City's balance held in the reserve was \$7,039,365. Due to the nature of the reserve held by NCPA, payments made to the reserve are expensed as purchased power.

Mendocino Transit Authority - This Agency consists of four Mendocino County cities and the County of Mendocino. The Agency was created to apply for and receive Transportation Development Act, Urban Mass Transportation Act, and other funds as a public transportation operator and to provide public transportation services within Mendocino County. Its activities are primarily financed from fare box revenue and federal and state government grants. A Board of Directors comprised of one member from each city and three members that are appointed by the Mendocino County Board of Supervisors governs the Authority.

Redwood Empire Financing Authority (REFA) - This is an agreement between seven Northern California cities. The Authority is authorized to acquire, through lease purchase, installment sale agreements, or otherwise such property necessary or convenient for the operation of the member cities. A Commission comprised of one member appointed by each member city administers the Authority. As explained previously, the City has entered into various financing arrangements with REFA.

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Redwood Empire Municipal Insurance Fund (REMIF) - A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and worker's compensation insurance. A Commission comprised of one member appointed by each member city administers the Authority. As explained previously, the City provides for its general and workers' compensation insurance needs through REMIF. Annual premiums paid to the Authority were \$897,326. During the year, the City received distribution from REMIF totaling \$122,218 for surplus funds within REMIF's liability insurance program.

Transmission Agency Of Northern California (TANC) - Members include eleven cities, one electric co-op, two irrigation districts, and one public utility district. The Agency was created to provide electric transmission or other facilities, including real property and rights of way, for the use of its members. A Commission comprised of one representative appointed by each member governs the Agency. The City has authorized its participation in the project up to one percent (1%) of the total.

Mendocino Solid Waste Management Authority (MSWMA) - This Authority consists of three Mendocino County cities and the County of Mendocino. The Agency was created for the purpose of: (a) siting, licensing, developing, constructing, maintaining, and operating disposal sites and sanitary landfills and (b) preparing and implementing a solid waste management plan. A Commission comprised of one member from each city and two members that are appointed by the Mendocino County Board of Supervisors governs the Authority.

C) Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

There are several pending lawsuits in which the City is involved. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

D) Landfill Closure And Postclosure Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,167,206 (including \$816,705 for corrective action liability) as of June 30, 2008, which is based on 100.0% usage (filled) of the landfill. This estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2008, as determined by the last engineering study performed. However, the actual cost of closure and postclosure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2008, held \$9,171,917 within its pooled investments designated for these purposes. The City has made a pledge of future service revenues for anticipated remaining expected costs, future inflation costs, and any additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example).

E) Service Contracts

The City has entered into several agreements to provide services to persons living outside the City limits. The general purpose and description of these contract agreements are as follows:

The City has contracted with the Ukiah Valley Sanitation District to provide processing of the District's wastewater. In addition, the City provides billing, collection and other direct maintenance services for the District. District assets held by the City are accounted for in the Agency funds.

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The City has granted Solid Waste Systems, Inc. a franchise for mandatory residential and optional commercial garbage collection and disposal. The City has also contracted with Solid Wastes Systems, Inc., to provide a citywide recycling program. The City acts as billing and collecting agent for the residential accounts of Solid Waste Systems, Inc. Amounts held by the City on behalf of the corporation are accounted for in the Agency funds.

F) Employee Retirement Systems

Plan Description:

The City has three (3) defined benefit pension plans; the Miscellaneous Plan of the City of Ukiah (Miscellaneous Plan), the Safety Police Plan of the City Of Ukiah (Police Plan), and the Safety Fire Plan of the City if Ukiah (Fire Plan). Each plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employees within the State of California.

The Police and Fire Plans each have less than 100 employees and are part of the Public Agency portion of the CalPERS and are, therefore, cost-sharing, multiple-employer plans administered by CalPERS. CalPERS requires plans with less than 100 active members must participate in a risk pool. As such, both the Police Plan and Fire Plan are required to participate in a risk pool.

State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City of Ukiah selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. 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, CA 95814.

Funding Policy:

Active plan members in the Plans are required to contribute 7.0% (10% for Police and Fire employees) of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate for fiscal 2007/08 was 19.692% for miscellaneous employees, 28.052% for police, and 16.518% for fire employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost:

For fiscal year 2007/08 the City's annual pension cost was \$2,223,470 (\$1,466,615 for Miscellaneous, \$563,327 for Police and \$193,528 for Fire) and the City actually contributed \$1,837,890. In addition, the City paid \$892,043 representing substantially all of the employees' required contributions under the terms of the City's various employee bargaining unit agreements. The annual required contribution for fiscal year 2007/08 was determined as part of the June 30, 2005, actuarial valuation.

	<u>Miscellaneous</u>	<u>Police</u>	<u>Fire</u>
Investment rate of return	7.75%	7.75%	7.75%
Projected salary increases	3.75% - 14.20%	3.25% - 14.45%	3.25% - 14.45%
Inflation	3.50%	3.00%	3.00%
Payroll growth	3.75%	3.25%	3.25%

The actuarial value of the Plan's assets was determined using a three-year smoothed market technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of the investment gains and/or losses. Each Plan's unfunded actuarial liability is being amortized as a level percentage of projected payrolls over a closed period that began on the Plan's date of entry into the CalPERS system. Subsequent Plan amendments are amortized over 20 years. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period on the total unfunded liability may not be lower than 30 years. As of June 30, 2007, the remaining average amortization period was 29 years for Miscellaneous, and 16 years for Police and 14 years for Fire.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

Three-Year Trend Information

Year Ending June 30,	Annual Pension Cost			Percentage Contributed	Net Pension Obligation
	Miscellaneous	Police	Fire		
2006	\$ 1,189,751	\$ 473,768	174,371	100%	\$ -
2007	1,235,510	546,847	176,915	100%	-
2008	1,466,615	563,327	193,528	100%	-

G) Deferred Compensation

The City of Ukiah offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit employees to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City has adopted the provisions of GASB Statement 32 and, therefore, the assets and liabilities of these plans have been excluded from the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF UKIAH
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes:				
Property	\$ 687,651	\$ 687,651	\$ 694,210	\$ 6,559
Sales and use	7,006,142	7,006,142	7,154,547	148,405
Property transfer	49,970	49,970	36,693	(13,277)
Transient occupancy	676,250	676,250	753,715	77,465
Business license	344,170	344,170	335,109	(9,061)
Franchise	529,000	529,000	555,281	26,281
Licenses and permits	211,050	211,050	142,036	(69,014)
Fines, forfeitures, and penalties	51,600	51,600	32,509	(19,091)
From other agencies	1,339,060	1,274,060	1,258,577	(15,483)
Use of money and property	1,015,894	1,015,894	1,170,424	154,530
Charges for current services	932,590	937,090	824,657	(112,433)
Other	47,551	100	24,980	24,880
Total Revenues	12,890,928	12,782,977	12,982,738	199,761
<u>EXPENDITURES</u>				
Current:				
General government	1,956,692	2,058,803	1,860,446	198,357
Public safety	8,068,150	8,369,106	7,965,358	403,748
Public works	1,428,968	1,550,527	1,254,202	296,325
Parks and recreation	1,897,242	1,994,440	1,895,801	98,639
Community development	67,075	179,304	137,507	41,797
Debt service	12,552	12,552	1,403	11,149
Capital outlay	159,500	277,968	107,195	170,773
Total Expenditures	13,590,179	14,442,700	13,221,912	1,220,788
Excess (Deficiency) of Revenues Over Expenditures	(699,251)	(1,659,723)	(239,174)	1,420,549
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,035,000	1,035,000	1,030,545	(4,455)
Total Other Financing Sources (Uses)	1,035,000	1,035,000	1,030,545	(4,455)
Net Change In Fund Balances	335,749	(624,723)	791,371	1,416,094
Fund Balances, July 1,	4,179,529	4,179,529	4,179,529	-
Fund Balances, June 30,	\$ 4,515,278	\$ 3,554,806	\$ 4,970,900	\$ 1,416,094

**CITY OF UKIAH
SCHEDULE OF FUNDING PROGRESS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Miscellaneous Plan Of The City Of Ukiah

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2005	\$ 31,796,590	\$ 41,101,460	\$ 9,304,870	77.4%	\$ 5,635,150	165.1%
June 30, 2006	34,098,257	44,004,578	9,906,321	77.5%	6,168,697	160.6%
June 30, 2007	37,302,948	47,466,073	10,163,125	78.6%	6,716,418	151.3%

SINGLE AUDIT AND OTHER COMPLIANCE

CITY OF UKIAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through State Department of Housing and Community Development:		
Community Development Block Grants:		
STBG No. 04-STBG-1971	14.228	\$ 250,000
Total U.S. Department of Housing and Urban Development		250,000
<u>Department of Transportation</u>		
Airport Improvement Program:		
Project: 03-06-0268-08	20.106	13,609
Project: 03-06-0268-10	20.106	139,398
Passed Through State Department of Transportation:		
Highway Planning and Construction:		
RPL-5049(009)	20.205	35,565
STPLER-5046(021)	20.205	39,580
STPLER-5046(021)	20.205	15,393
Total Department of Transportation		243,545
<u>Department of Justice</u>		
Federal Asset Seizure		
DA #96-FF-010	16.999	1,830
Total Department of Transportation		1,830
TOTALS		\$ 495,375

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
JUNE 30, 2008**

NOTE A SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and other awards is a summary of the activity of the City of Ukiah's federal and other award programs and has been prepared on an accounting basis consistent with the government-wide financial statements of the City of Ukiah. Therefore, all of the grants presented on the accompanying schedule have been accounted for using the accrual basis of accounting as described in Note 1(c) of the City of Ukiah's Notes to Financial Statements.



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

Honorable Mayor and City Council
Members of the City of Ukiah
Ukiah, CA 95490

We have audited the basic financial statements of the of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah, California, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 2008-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.



Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Davis Hammon & Co.

June 10, 2009



DAVIS HAMMON & CO.
Certified Public Accountants

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(1924-1989)

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

Honorable Mayor and City Council
Members of the City of Ukiah
Ukiah, CA 95490

Compliance

We have audited the compliance of the City of Ukiah, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City of Ukiah's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Ukiah's management. Our responsibility is to express an opinion on the City of Ukiah's compliance based on our audit.

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

In our opinion, the City of Ukiah complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Ukiah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ukiah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ukiah's internal control over compliance.

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

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



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

This report is intended solely for the information and use of the City Council, management, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Davis Hammon & Co.

June 10, 2009

**CITY OF UKIAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

A) Summary of Audit Results

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements.
- 2) One (1) control deficiency was disclosed related to the audit of the basic financial statements of the City of Ukiah.
- 3) No instances of noncompliance material to the basic financial statements of the City of Ukiah were disclosed during the audit.
- 4) No control deficiencies were disclosed during the audit of major federal award programs.
- 5) The auditors' report on compliance for major federal award programs for the City of Ukiah expresses a qualified opinion.
- 6) Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are included in this schedule.
- 7) The programs tested as major programs included:
 - a. Department of Housing and Urban Development
Community Development Block Grants
CFDA: 14.228
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) The City of Ukiah was determined to be a low-risk auditee.

B) Findings – Financial Statement Audit

2008-1 Reconciliation of Pooled Cash and Investments

Finding: We noted that the June 30, 2008, reconciliation of the City's pooled cash and investments to the City's accounting system was not completed in a timely manner. The delay in completing the reconciliation results in 1) incorrect pooled investment amounts being reported for an extended period of time, 2) delays in the completion of various reports (including the annual audit), 3) delays in identifying and correcting potential errors or irregularities.

Recommendation: City should take steps to ensure pooled cash and investments are reconciled to the underlying accounting records each month in a timely manner. A reasonable timeframe should be established (such as within 30-60 days of each month-end) to complete the reconciliation. Reconciling adjustments should be approved and recorded within the established timeframe.

There were no findings outstanding from prior year audits.

C) Findings and Questioned Costs – Major Federal Award Programs

No findings or questioned costs noted. There were no findings or questioned costs outstanding from prior year audits.



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**INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEETS**

Honorable Mayor and City Council
Members of the City of Ukiah
Ukiah, California 95490

We have applied the procedures enumerated below to the Appropriations Limit calculations of the City of Ukiah for the year ended June 30, 2008. These procedures, which were agreed to by the City of Ukiah and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures performed and our findings were as follows:

- 1) We obtained the City's completed alternate computation Appropriations Limit worksheets, and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

- 2) Using the City's alternate computational worksheet, we added last year's limit to the total current year limit adjustments, as computed, for this year, and compared the results to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

- 3) We compared the prior year appropriations limit presented in the alternate computational worksheets to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the Appropriations Limit alternate computational worksheets. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication *Article XIII B Appropriations Limitation Uniform Guidelines*.

This report is intended solely for the use of the City of Ukiah and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Davis Hammon & Co.

June 10, 2009