

**CITY OF UKIAH  
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT  
AUDITORS' REPORTS

**FOR THE YEAR ENDED JUNE 30, 2010**

**CITY OF UKIAH  
TABLE OF CONTENTS  
JUNE 30, 2010**

<u>Financial Section</u>	<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report		2
Management's Discussion and Analysis		3 - 13
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	One	15
Statement of Activities	Two	16
Fund Financial Statements:		
Balance Sheet – Governmental Funds	Three	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Activities		18
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	Four	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities		20
Statement of Net Assets – Proprietary Funds	Five	21 - 22
Statement of Revenues, Expenses, and Changes In Fund Net Assets – Proprietary Funds	Six	23
Statement of Cash Flows – Proprietary Funds	Seven	24 - 25
Statement of Fiduciary Net Assets – Fiduciary Funds	Eight	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	Nine	27
Notes to Financial Statements		28 - 45
<u>Schedule</u>		
<u>Required Supplemental Information</u>		
Schedule of Revenues, Expenditures, and Changes In Fund Balances – Budget and Actual – General Fund	I	47
Schedule of Funding Progress – Public Employees' Retirement System	II	48

**CITY OF UKIAH  
TABLE OF CONTENTS  
JUNE 30, 2010**

	<u>Schedule</u>	<u>Page</u>
<u>Other Compliance Section</u>		
Schedule of Expenditures of Federal and Other Awards	III	50
Notes to the Schedule of Expenditure of Federal And Other Awards		51
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 <i>Government Auditing Standards</i>		52 - 53
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		54 - 55
Schedule of Findings and Questioned Costs		56 - 57
Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets		58

## 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, 2010 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, 2010 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 April 9, 2011 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.*

April 9, 2011

# **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, 2010. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2010, 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 decreased less than 1% to \$122,642 from \$122,711 a year ago.
- Governmental net assets ended the year at \$46,670 down 9% from \$51,505 in the prior year while net assets for Business Type activities were up 7% to \$75,972 from \$71,206 in 2009.
- Total tax revenue, other governmental revenues and business activity revenues were less than expenses by \$69.
- General Fund revenues exceeded expenditures and other financing sources and uses by \$783.
- Total revenues from all sources were \$52,735, up from \$52,731 in the prior year.
- The total cost of all activities was \$51,058, up from the prior year at \$47,093.

## **2. USING THIS ANNUAL REPORT**

This annual report consists of three parts – management's discussion and analysis (this portion), the basic financial statements, and the required supplemental 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 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 which are 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. The bottom of the Balance Sheet on page 18 explains the changes from accrual based net assets to financial-asset based fund balances. 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, 2010 and 2009.

**Table 1**  
**Summary of Net Assets**

For the Fiscal Years Ended June 30, 2010 and 2009  
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Current and other assets	34,331	38,632	54,510	63,480	88,842	102,112
Capital assets	<u>26,523</u>	<u>22,329</u>	<u>138,049</u>	<u>130,076</u>	<u>164,572</u>	<u>152,405</u>
<b>Total assets</b>	<u>60,854</u>	<u>60,961</u>	<u>192,559</u>	<u>193,556</u>	<u>253,413</u>	<u>254,517</u>
<b>Liabilities:</b>						
Long-term debt outstanding	4,477	4,724	108,885	111,903	113,362	116,627
Other liabilities	<u>9,707</u>	<u>4,732</u>	<u>7,702</u>	<u>10,447</u>	<u>17,409</u>	<u>15,179</u>
<b>Total liabilities</b>	<u>14,184</u>	<u>9,456</u>	<u>116,587</u>	<u>122,350</u>	<u>130,771</u>	<u>131,806</u>
<b>Net assets:</b>						
Invested in capital assets net of debt	31,547	22,329	33,203	22,509	64,750	44,838
Restricted	7,575	7,107	2,007	1,999	9,582	9,106
Unrestricted	<u>7,548</u>	<u>22,069</u>	<u>40,762</u>	<u>46,698</u>	<u>48,310</u>	<u>68,767</u>
<b>Total net assets</b>	<u>46,670</u>	<u>51,505</u>	<u>75,972</u>	<u>71,206</u>	<u>122,642</u>	<u>122,711</u>

The City's combined net assets for the fiscal year ended June 30, 2010 were \$122,642. 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 decreased 9% from \$51,505 to \$46,670, while business-type activities net assets increased 7% from \$71,206 to \$75,972. 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 Citywide Statement of Activities. \$1,059 was transferred to the General Fund from the Electric Utility in lieu of taxes that would be charged to an outside provider. This amount is calculated at 7% of electric revenues. \$613 was transferred to the General Fund from the Special Projects Fund to fund the Strategic General Fund Reserve.

In FY 2008-09 Rate Stabilization Funds were created in the Sewer Enterprise (\$2,850) and on behalf of the Ukiah Valley Sanitation District (\$1,900). In FY 2009-10, transfers were made to the Sewer Enterprise (\$761) and the Ukiah Valley Sanitation District (\$689) from the Sewer Enterprise Fund for stabilizing rates and meeting bond coverage requirements.

**Table 2**  
**Statement of Change in Net Assets**  
For the Fiscal Years Ended June 30, 2010 and 2009  
*(Full Accrual, in Thousands)*

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues:						
Charges for services	4,297	5,089	27,779	28,069	32,076	33,158
Operating grants and contributions	1,011	448	20	20	1,031	468
Capital grants and contributions	2,721	658	1,738	684	4,459	1,342
Other					-	-
Taxes	12,481	13,801			12,481	13,801
From other agencies not restricted to specific programs	1,296	1,266			1,296	1,266
Use of money and property	301	399	1,091	2,297	1,392	2,696
<b>Total revenues</b>	<b>22,107</b>	<b>21,661</b>	<b>30,628</b>	<b>31,070</b>	<b>52,735</b>	<b>52,731</b>
<b>Expenses:</b>						
General government	2,838	2,908			2,838	2,908
Public safety	9,182	9,234			9,182	9,234
Public works	1,578	2,003			1,578	2,003
Community Services (Parks & Rec.)	1,985	2,393			1,985	2,393
Community Development	10,308	2,526			10,308	2,526
Interest on long-term debt	317	333			317	333
Electric			14,901	16,739	14,901	16,739
Water			3,630	3,850	3,630	3,850
Sewer			3,301	3,756	3,301	3,756
Solid Waste Disposal Site (closed)			381	431	381	431
Street Lighting			184	159	184	159
Airport			1,043	1,243	1,043	1,243
Parking District			143	196	143	196
Golf Course			941	959	941	959
Conference Center			326	363	326	363
					-	-
<b>Total expenses</b>	<b>26,208</b>	<b>19,397</b>	<b>24,850</b>	<b>27,696</b>	<b>51,058</b>	<b>47,093</b>
Increase N.A. before Trfrs	(4,101)	2,264	5,778	3,374	1,677	5,638
Special Item-transfer to other agency	(1,746)			(1,900)	(1,746)	(1,900)
Transfers	1,012	1,265	(1,012)	(1,265)	-	-
<b>Change in Net Assets</b>	<b>(4,835)</b>	<b>3,529</b>	<b>4,766</b>	<b>209</b>	<b>(69)</b>	<b>3,738</b>
Beginning Net Assets	51,505	47,976	71,206	70,997	122,711	118,973
<b>Ending Net Assets</b>	<b>46,670</b>	<b>51,505</b>	<b>75,972</b>	<b>71,206</b>	<b>122,642</b>	<b>122,711</b>

## Governmental Activities

Table 3 presents the cost of each of the City's major governmental programs for FY 2009-10 and FY 2008-09.

**Table 3**  
**Cost of Governmental Activities**  
 For the Fiscal Years Ended June 30, 2010 and 2009  
*(Full Accrual, in Thousands)*

	Total Cost to Provide Services		Cost Change	Percentage Change
	2010	2009		
General Government	2,838	2,908	(70)	-2%
Public Safety	9,182	9,234	(52)	-1%
Public Works	1,578	2,003	(425)	-21%
Parks & Recreation	1,985	2,393	(408)	-17%
Community Development	10,308	2,526	7,782	308%
Debt service interest	317	333	(16)	-5%
	26,208	19,397	6,811	35%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total governmental costs increased by 35%. The decreases in General Government, Public Safety, and Parks & Recreation were offset by an increase in Community Development. 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 \$481 from 2009 to 2010 (to \$2,675 from \$2,194).

General government services include the City Council, City Clerk, City Treasurer, Community Planning, and the City Manager's office as well as Finance, Administrative, Legal, and Human Resources 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 \$76. Fire salaries and overtime increased by \$91.

Public Works primarily consists of engineering, streets, and public rights of way maintenance.

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 and development account for the majority of the cost increases.

Community development is primarily grant-funded projects and activities of the Redevelopment Agency. FY 2009-10 expenses included \$4,198 for the purchase of land for resale, \$2,293 by the Ukiah Redevelopment Agency to the Ukiah Unified School District, and a payment to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF) in the amount of \$1,746. An additional payment of \$359 will be required in FY 2010-11.

## Business Type Activities

The City's net assets for business-type activities in continuing operations resulted a \$5,001 increase in net assets or 17% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$1,441 increase, or 5% in 2009. The Solid Waste Disposal Site was closed in 2001 and its current position is presented separately so as to not distort the results of continuing operations presented on Table 4.

Table 4  
**Statement of Operating Income and Expenses - Business Type Funds**  
 For the Fiscal Years Ended June 30, 2010 and 2009  
*(Full Accrual, in Thousands)*

	Operating Expenses		Operating Revenue		Increase (decrease) From Operations			
	2010	2009	2010	2009	2010		2009	
Electric	14,901	16,739	15,148	15,259	247	2%	(1,480)	10%
Water	3,630	3,850	2,698	2,867	(932)	35%	(983)	34%
Sewer	3,301	3,756	8,584	7,647	5,283	62%	3,891	51%
Street Lights	184	159	198	185	14	7%	26	14%
Airport	1,043	1,243	1,451	1,287	408	28%	44	3%
Parking	143	196	163	182	20	12%	(14)	-8%
Golf Course	941	959	939	1,008	(2)	0%	49	5%
Conference Center	326	363	289	271	(37)	13%	(92)	34%
<b>Total</b>	<b>24,469</b>	<b>27,265</b>	<b>29,470</b>	<b>28,706</b>	<b>5,001</b>	<b>17%</b>	<b>1,441</b>	<b>5%</b>
<b><u>Closed Program</u></b>								
Solid Waste Disposal Site	381	431	67	67	(314)		(364)	

Electricity purchase costs decreased from \$10,451 last year to \$9,186 in FY 2009-10, while rates charged by the Utility were held constant.

Annual water revenue was down 6% from the prior year due primarily to water conservation efforts as a result of the continuing rainfall shortage. The interest and depreciation expenses increased as a result of a major capital project to increase system peak storage and delivery capacity.

The Conference Center was unable to fund its operating expenses, before depreciation, in FY 2009-10. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenue, but revenues were impacted by the economic down turn.

The Solid Waste Disposal Site ceased operations in 2001 and State 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.

## 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 decreased to \$2,014 from \$2,130 in FY 2008-09. There was decline in sales and use tax, transient occupancy tax, business license fees, and property tax received by the Redevelopment Agency. The total decline in governmental revenues was 1%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues, expenditures, transfers, and changes in fund balances:

**Table 5**  
**Revenue, Expenditure and Fund Balance Summary: Governmental Funds**

For the Fiscal Years Ended June 30, 2010 and 2009

*(Modified Accrual Basis, Stated in Thousands)*

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Taxes	8,617	8,694	3,864	5,107	12,481	13,801
Licenses and permits	338	156	-	-	338	156
Fines, forfeitures & penalties	60	82	136	64	196	146
From other Agencies	1,399	1,309	3,020	1,116	4,419	2,425
Use of money & property	1,061	1,165	504	1,398	1,565	2,563
Charges for current services	1,024	896	-	26	1,024	922
Other	5	3	297	477	302	480
<b>Total revenues</b>	<b>12,504</b>	<b>12,305</b>	<b>7,821</b>	<b>8,188</b>	<b>20,325</b>	<b>20,493</b>
<b>Expenditures:</b>						
Current	13,230	13,355	10,790	3,619	24,020	16,974
Debt Service	1	1	542	552	543	553
Capital Outlay	161	142	5,027	1,551	5,188	1,693
<b>Total expenditures</b>	<b>13,392</b>	<b>13,498</b>	<b>16,359</b>	<b>5,722</b>	<b>29,751</b>	<b>19,220</b>
Excess(Deficiency)of revenues over Expenditures	(888)	(1,193)	(8,538)	2,466	(9,426)	1,273
<b>Other Financing Sources(Uses):</b>						
Transfers In	1,671	1,130	443	173	2,114	1,303
Transfers Out			(1,102)	(38)	(1,102)	(38)
	<u>1,671</u>	<u>1,130</u>	<u>(659)</u>	<u>135</u>	<u>1,012</u>	<u>1,265</u>
Extraordinary Item: SERAF payment			(1,746)		(1,746)	
Net Change in Fund Balances	783	(63)	(10,943)	2,601	(10,160)	2,538
Fund Balances July 1	4,908	4,971	27,373	24,772	32,281	29,743
<b>Fund Balances, June 30</b>	<b>5,691</b>	<b>4,908</b>	<b>16,430</b>	<b>27,373</b>	<b>22,121</b>	<b>32,281</b>

Before the revenue from the additional 0.5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) decreased by 10.3%. The revenue from the additional 0.5% local sales tax decreased by 5.5% from FY 2008-09 to FY 2009-10.

General Fund Revenue from Other Agencies primarily includes 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 vary dramatically from year to year. FY 2005-06 totaled \$1,138, increasing to \$2,516 for FY 2006-07, dropping to \$2,357 for FY 2007-08, to \$1,116 for FY 2008-09, then increasing to \$3,020 this year. The largest components of this year's funding included \$1,188 for the Orchard Avenue bridge, \$471 for Traffic Congestion Relief (Prop 42), \$336 from the HOME 4688 Grant for First Time Homebuyers and Owner Occupied Rehabilitation, and \$284 for the TEA Railroad Depot project.

Current General Fund expenditures decreased from \$13,355 to \$13,230. Other Governmental Funds saw a 286% increase in expenditures, primarily in Current Expenditures for Community Development, as discussed in the Government Activities section, and Capital Outlay, for the Orchard Avenue Bridge (\$1,540), and for Mendocino College Housing projects (\$1,157). Total Governmental Fund expenditures increased from \$19,220 in FY 2008-09, to \$29,751 in FY 2009-10, a 55% increase.

The net change in fund balance for the General Fund for FY 2009-10 was an increase of \$783, as compared to a \$63 decrease in FY 2008-09, reflecting the slightly improved revenues and significant reductions from cost saving measures. The net change in fund balances for the Other Governmental Funds was a decrease of 521%, from \$2,601 in FY 2008-09, to (\$10,943) in FY 2009-10.

## **5. GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual General Fund revenues are \$255 over budget, a positive variance of 2%. Total taxes were 3% over budget, with property taxes up 106% and sales taxes below budget by 6%. The regular sales tax revenue was less than the budget by \$204, and the local one-half percent sales tax was under budget by \$139.

Total General Fund expenditures finished the year under budget with a total cost savings of 8%, or \$1,234. Some savings were the result of continued downward pressure on spending plans, as well as reductions in force with 22 positions eliminated in the latter part of FY 2008-09 and an additional 9 positions eliminated in the second half of FY 2009-10.

Before accounting for transfer activity there was a net positive variance of \$1,489. After transfers, the final positive variance in Fund Balance was \$1,714.

## **6. CASH MANAGEMENT**

The City contracts with Public Financial Management, Inc. (PFM), a specialist in municipal cash management, to direct its investments and maintain flexibility by utilizing a pooled cash system. Under the pooled cash concept, the City invests the cash of all funds to ensure maturities 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**

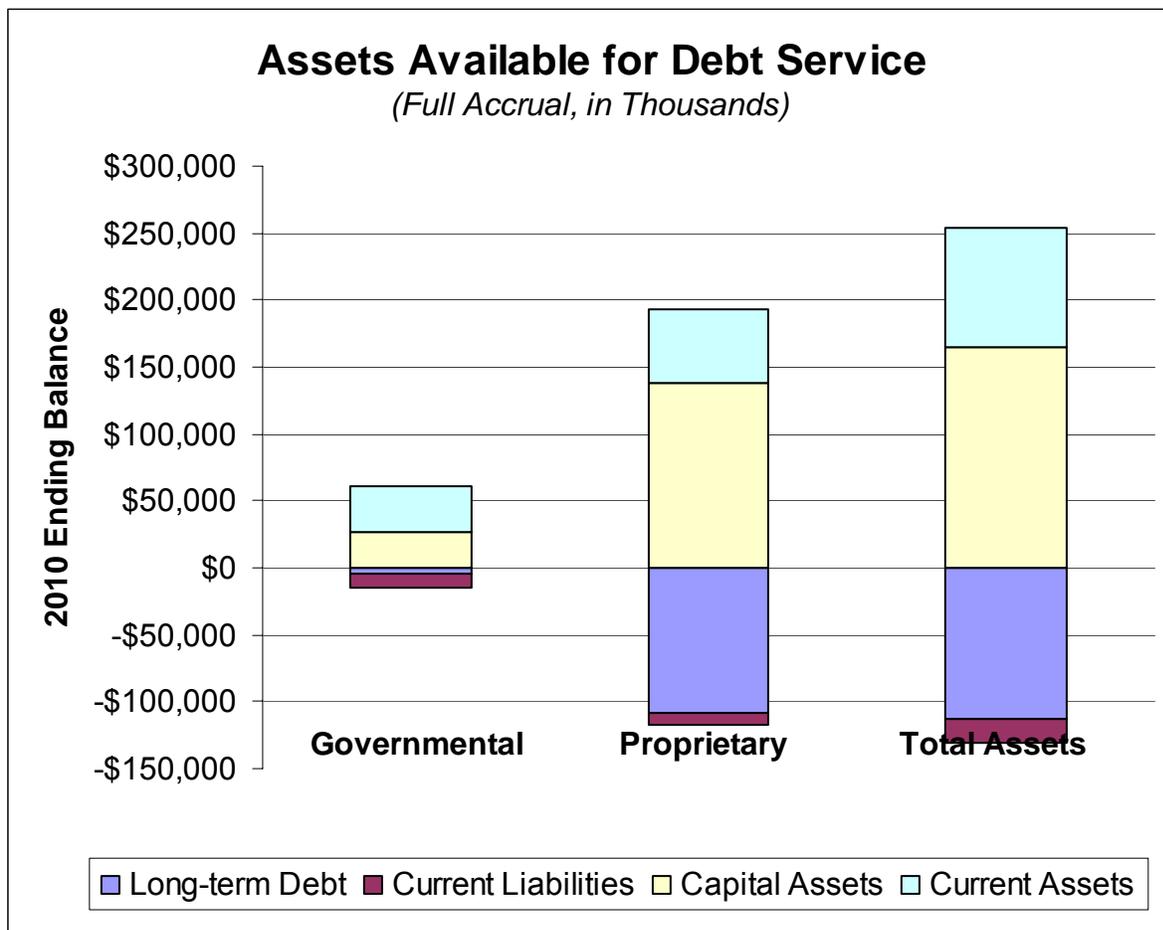
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2010, net capital assets of the governmental activities totaled \$26,523, and the net capital assets of the business-type activities totaled \$138,049. 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 \$9,707 and business-type liabilities are \$7,702. The City had total governmental liabilities totaling \$14,184 and business-type liabilities of \$116,586. Included in these totals are \$4,477 of Redevelopment Agency long-term debt and \$108,884 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 107%, the same as for 2009.



## 9. NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City Manager's Budget Message introducing the City's 2010-11 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 2010-11 are \$436 below the budgeted revenues for FY 2009-10. The expenditures are \$1,090 below FY 2009-10 amended budget figures. These amounts include the revenue and expenditures related to the Measure "S" Sales Tax which is budgeted to decrease by \$62. License and Permit fees are declining by \$435 due to onetime fees in FY 2009-10 that are not recurring in FY 2010-11. The budget adopted for the Combined Public Safety and General Funds for FY 2010-11 has a deficit of \$940. This is a reduction from the deficit of \$1,595 adopted for FY 2009-10.

The Measure "S" Sales Tax revenues for FY 2010-11 are projected to be \$1,891. 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 \$8,255 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 \$29 over FY 2009-10 projected actual sales tax amount. The FY 2010-11 budget reflects the difficult year that local governments throughout California and the United States are facing.

Changes implemented after the adoption of the FY 2009-10 budget included reductions in force and salary reductions for some bargaining units continued into FY 2010-11. The Public Safety units, City Department Heads, and the City Manager agreed to continue the 5% salary reduction for FY 2010-11. The citywide full-time positions were reduced from 178 at the beginning of FY 2009-10 to 171 for FY 2010-11.

Further reductions in operating expenses will be required for FY 2010-11 as the continued economic downturn leads to a reduction in City revenues. 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 internally recorded as a separate fund. The sales tax and interest revenue is projected to be \$1,891 for the FY2010-11 budget year. Expenditures are broken into two categories, Police Department and Fire Department. Budgeted expenditures are \$8,255. 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 five projects in the capital account under Park Development. This includes construction in Riverside Park; Ukiah Sports Complex; Observatory Park; the swimming pool and construction of the Ukiah Skate Park as reimbursed through State Park Bond funds, park development fees, and private donations.

## ENTERPRISE FUNDS:

Electric Utility: The Electric Utility expenditures are projected to decrease over the next year. One major project for the Electric Department is construction of the new Gobbi Street Substation which is expected to be in the final stage of completion by the end of this fiscal year. A second major undertaking is the Pole Replacement Project. All electric poles have been tested and a priority list for replacement of defective poles has been established.

Water Operations: A new five-year rate study has been completed and the first scheduled increase became effective on August 1, 2010. To help ensure an adequate supply of water for the City, Well #7 was completed in FY 2009-10 and Well #8 is scheduled to be put into production in FY 2010-11. The schedule of five annual rate increases is projected to meet revenue covenants.

Wastewater Operations: A new five-year rate study has been completed. The first rate increase will be effective in July 2011, with planned increases in each of the subsequent three years. The schedule of four annual rate increases is projected to meet revenue covenants. The multi-year wastewater treatment plant upgrade and capacity expansion project was completed in FY2009-10. The balance remaining in the project fund will be transferred to the debt service fund held by the trustee. The amount transferred will fully fund the March 2011 debt payment and partially

fund the September 2011 debt payment. A major project for Wastewater Operations for FY 2010-11 is the addition of a lining to existing sewer lines and man holes, as necessary, to prevent the inflow of water into the pipes.

Solid Waste: A review of the garbage rates was completed and new rates implemented in December 2010 and CPI based adjustments scheduled in 2011 and 2012.

Ukiah Valley Conference Center: The Conference Center had net gain, before depreciation, of \$11, as contrasted to a net loss of \$44 for FY 2008-09. 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 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 thus reestablished the Assistant City manager position, in 2009-10, to handle both economic development needs and special projects. For FY 2010-11, the Agency is funding 100% of the cost of a Project and Grant Administrator to oversee economic development related projects and grants and 1,000 hours of part-time project and program analysis staff. Additionally, seventeen positions are partially funded by the Agency, including 80% of the Assistant City Manager position and 50% of the City Manager, as the Redevelopment Agency Executive Director.

The Agency is required to reserve 20% of the Redevelopment revenue for the Housing Allocation. The Agency has contracts with Mendocino County and Mendocino College to reserve 35% of the Housing Allocation for projects they identify. The projected fund balance for the remaining Agency portion of the Housing Allocation at the end of FY 2010-11 is \$551. The Housing Allocation reserved for projects identified by Mendocino County and Mendocino College funds is projected to be \$493, at the end of FY 2010-11. The Council is planning for major project expenditures for infrastructure improvements at the Airport Business Park in FY 2010-11. It is anticipated that bonds will be sold to fund additional Agency capital projects and Agency housing projects.

### **SUMMARY**

While facing the prospect of reduced revenue, the City continues to provide not only basic services, but also many quality-of-life services that enhance our community. City staff will continue to develop expenditure reduction plans during FY 2010-11 to realign revenues and expenditures. The City plans on utilizing General Fund reserves to finance operating expenses. Expenditure reductions, changes in fees and charges, and related organizational changes are expected to result in balanced future budgets. Sponsorships, donations, and fees-for-service cover many of our youth sports and recreational 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 that affects expansion of service should be weighed against funding options and economies of scale to ensure that we do not further erode City resources 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, 2010**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Funds</u>	<u>Total</u>
Cash and investments	\$ 24,569,806	\$ 40,998,082	\$ 65,567,888
Receivables (net)	4,366,010	3,197,527	7,563,537
Internal balances	587,979	(587,979)	-
Restricted Assets:			
Temporarily Restricted:			
Cash with fiscal agent	493,297	8,716,101	9,209,398
Prepaid expenses	14,276		14,276
Deposits	760	4,750	5,510
Inventory		874,278	874,278
Land primarily held for resale	4,197,996		4,197,996
Deferred charges	101,254	1,307,706	1,408,960
Capital assets (net of accumulated depreciation)	26,523,186	138,048,526	164,571,712
 Total Assets	 <u>60,854,564</u>	 <u>192,558,991</u>	 <u>253,413,555</u>
 <u>LIABILITIES</u>			
Accounts payable and other current liabilities	2,489,804	3,051,476	5,541,280
Accrued interest payable	18,451	265,604	284,055
Liabilities payable from restricted assets		1,156,436	1,156,436
Deferred revenues	6,948,989		6,948,989
Customer deposits		2,162	2,162
Noncurrent Liabilities:			
Due within one year	250,000	3,226,442	3,476,442
Due in more than one year	4,477,378	108,884,322	113,361,700
 Total Liabilities	 <u>14,184,622</u>	 <u>116,586,442</u>	 <u>130,771,064</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	31,547,564	33,203,171	64,750,735
Restricted for:			
Public safety	298,740		298,740
Streets and highways	1,640,310		1,640,310
Community development	938,332		938,332
Low and moderate income housing	2,249,070		2,249,070
Debt service	2,448,142	2,006,773	4,454,915
Unrestricted	7,547,784	40,762,605	48,310,389
 Total Net Assets	 <u>\$ 46,669,942</u>	 <u>\$ 75,972,549</u>	 <u>\$ 122,642,491</u>

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

CITY OF UKIAH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue And Changes In Net Assets		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 2,837,619	\$ 1,642,298			\$ (1,195,321)		\$ (1,195,321)
Public safety	9,181,714	1,111,741	\$ 237,377		(7,832,596)		(7,832,596)
Public works	1,577,833	584,329	421,171	\$ 2,437,918	1,865,585		1,865,585
Parks and recreation	1,985,137	632,037	17,208	283,024	(1,052,868)		(1,052,868)
Community development	10,308,280	326,202	335,832		(9,646,246)		(9,646,246)
Debt service:							
Interest	317,152				(317,152)		(317,152)
Total Governmental Activities	<u>26,207,735</u>	<u>4,296,607</u>	<u>1,011,588</u>	<u>2,720,942</u>	<u>(18,178,598)</u>	<u>\$ -</u>	<u>(18,178,598)</u>
Business-Type Activities:							
Electric	14,900,706	15,148,212				247,506	247,506
Water	3,629,962	2,698,212				(931,750)	(931,750)
Sewer	3,301,200	7,419,735		1,163,642		5,282,177	5,282,177
Disposal site	381,384	66,947				(314,437)	(314,437)
Street lighting	183,903	197,808				13,905	13,905
Airport	1,042,838	866,541	10,000	573,908		407,611	407,611
Parking	143,081	153,483	10,155			20,557	20,557
Golf course	940,823	939,466				(1,357)	(1,357)
Conference center	325,765	289,099				(36,666)	(36,666)
Total Business-Type Activities	<u>24,849,662</u>	<u>27,779,503</u>	<u>20,155</u>	<u>1,737,550</u>	<u>-</u>	<u>4,687,546</u>	<u>4,687,546</u>
Total	<u>\$ 51,057,397</u>	<u>\$ 32,076,110</u>	<u>\$ 1,031,743</u>	<u>\$ 4,458,492</u>	<u>(18,178,598)</u>	<u>4,687,546</u>	<u>(13,491,052)</u>
General Revenues:							
Taxes:							
Property					5,106,817		5,106,817
Sales and use					5,776,015		5,776,015
Property transfer					35,397		35,397
Transient occupancy					661,149		661,149
Business license					355,954		355,954
Franchise					545,503		545,503
From other agencies not restricted to specific programs					1,295,970		1,295,970
Use of money and property					300,784	1,091,216	1,392,000
Transfers					1,012,185	(1,012,185)	-
Total General Revenues, Special Items And Transfers					<u>15,089,774</u>	<u>79,031</u>	<u>15,168,805</u>
Extraordinary item: SERAF payment					<u>(1,746,178)</u>		<u>(1,746,178)</u>
Change In Net Assets					(4,835,002)	4,766,577	(68,425)
Net Assets - beginning					51,504,944	71,205,972	122,710,916
Net Assets - Ending					<u>\$ 46,669,942</u>	<u>\$ 75,972,549</u>	<u>\$ 122,642,491</u>

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

CITY OF UKIAH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Redevelopment Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and investments	\$ 5,634,921	\$ 3,432,427	\$ 14,020,793	\$ 23,088,141
Cash with fiscal agent - restricted			493,297	493,297
Receivables:				
Accounts (net)	378,062	1,000	74,860	453,922
Interest	219,668			219,668
Property taxes			168,634	168,634
Grants	6,608		665,556	672,164
Loans			2,751,493	2,751,493
Prepaid expenses	12,776		1,500	14,276
Due from other funds	62,848		45,577	108,425
Advances due from other funds	966,773			966,773
Land primarily held for resale		4,197,996		4,197,996
<b>Total Assets</b>	<b>\$ 7,281,656</b>	<b>\$ 7,631,423</b>	<b>\$ 18,221,710</b>	<b>\$ 33,134,789</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 337,521	\$ 109,651	\$ 467,393	\$ 914,565
Accrued salaries and benefits	543,216		44,196	587,412
Accrued compensated absences	645,743		55,268	701,011
Contract retentions payable	1,649		48,360	50,009
Deferred revenues		4,197,996	3,251,992	7,449,988
Due to other funds	57,774		88,079	145,853
Advances due to other funds	5,191		1,159,549	1,164,740
<b>Total Liabilities</b>	<b>1,591,094</b>	<b>4,307,647</b>	<b>5,114,837</b>	<b>11,013,578</b>
Fund Balances:				
Reserved for:				
Encumbrances	396,964	247,485	107,353	751,802
Petty cash	1,450			1,450
Long-term receivable	966,773			966,773
Low/Moderate housing			2,242,730	2,242,730
Capital outlay - outside agencies		1,129,945	227,031	1,356,976
Debt service			2,448,142	2,448,142
Unreserved, reported in:				
General fund	4,325,375			4,325,375
Special revenue funds			3,210,678	3,210,678
Capital projects funds		1,946,346	4,870,939	6,817,285
<b>Total Fund Balances</b>	<b>5,690,562</b>	<b>3,323,776</b>	<b>13,106,873</b>	<b>22,121,211</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ 7,281,656</b>	<b>\$ 7,631,423</b>	<b>\$ 18,221,710</b>	<b>\$ 33,134,789</b>

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, 2010**

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

Total Fund Balances	\$ 22,121,211
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	51,929,401
Less: Accumulated depreciation	(25,855,258)
Liabilities were reported for certain revenues that were not available to pay current period expenditures, and , therefore deferred in the funds.	
Deferred revenues - unearned	500,999
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.	2,618,164
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	(4,785,000)
Deferred issue costs (will be amortized)	101,254
Bond discount (will be amortized)	57,622
Accrued interest on long-term debt	(18,451)
<b>Net Assets Of Governmental Activities</b>	<b><u>\$ 46,669,942</u></b>

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, 2010**

<u>REVENUES</u>	<u>General</u>	<u>Redevelopment Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes:				
Property	\$ 1,243,222	\$ 1,245,263	\$ 2,618,332	\$ 5,106,817
Sales and use	5,776,015			5,776,015
Property transfer	35,397			35,397
Transient occupancy	661,149			661,149
Business license	355,954			355,954
Franchise	545,503			545,503
Licenses and permits	337,508			337,508
Fines, forfeitures, and penalties	59,860		135,957	195,817
From other agencies	1,399,364		3,020,281	4,419,645
Use of money and property	1,060,788	92,785	411,614	1,565,187
Charges for current services	1,024,323			1,024,323
Other	4,667		297,199	301,866
<b>Total Revenues</b>	<b>12,503,750</b>	<b>1,338,048</b>	<b>6,483,383</b>	<b>20,325,181</b>
 <u>EXPENDITURES</u>				
Current:				
General government	1,661,482		50,601	1,712,083
Public safety	8,666,988		127,800	8,794,788
Street and roads	1,085,497		312,710	1,398,207
Parks and recreation	1,792,098		67,150	1,859,248
Community development	24,083	8,807,682	1,424,059	10,255,824
Debt service:				
Principal			235,000	235,000
Interest	715		307,263	307,978
Capital outlay	161,616	377,711	4,648,698	5,188,025
<b>Total Expenditures</b>	<b>13,392,479</b>	<b>9,185,393</b>	<b>7,173,281</b>	<b>29,751,153</b>
Excess (Deficiency) of Revenues Over Expenditures	(888,729)	(7,847,345)	(689,898)	(9,425,972)
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,671,395		442,861	2,114,256
Transfers out	-		(1,102,071)	(1,102,071)
<b>Total Other Financing Sources (Uses)</b>	<b>1,671,395</b>	<b>-</b>	<b>(659,210)</b>	<b>1,012,185</b>
Extraordinary item: SERAF payment		(1,746,178)		(1,746,178)
<b>Net Change In Fund Balances</b>	<b>782,666</b>	<b>(9,593,523)</b>	<b>(1,349,108)</b>	<b>(10,159,965)</b>
Fund Balances, July 1,	4,907,896	12,917,299	14,455,981	32,281,176
<b>Fund Balances, June 30,</b>	<b>\$ 5,690,562</b>	<b>\$ 3,323,776</b>	<b>\$ 13,106,873</b>	<b>\$ 22,121,211</b>

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, 2010**

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

Net change in fund balances - total governmental funds	\$ (10,159,965)
<p>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</p>	
Capital outlay	5,188,025
Depreciation	(1,004,519)
<p>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</p>	
Principal Repayments:	
Ukiah Redevelopment Agency loan payments	235,000
<p>Revenues not available to pay current expenditures are deferred in the funds:</p>	
Deferred revenues - unearned	500,999
<p>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</p>	
Accrued interest on long-term debt	1,077
Amortize bond issue costs	(6,533)
Amortize bond premium	(3,718)
<p>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</p>	
	414,632
 <b>Change In Net Assets Of Governmental Activities</b>	 <b><u>\$ (4,835,002)</u></b>

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

CITY OF UKIAH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010

<u>ASSETS</u>	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Current Assets:							
Cash	\$ 16,074,356	\$ 782,129	\$ 14,569,346	\$ 8,710,818	\$ 861,433	\$ 40,998,082	\$ 1,481,665
Receivables:							
Accounts (net)	1,197,404	183,885	9,552		86,841	1,477,682	100,129
Unbilled	1,037,643	226,029	387,957			1,651,629	
Grants			49,994		18,222	68,216	
Due from other funds	65,467					65,467	34,896
Deposits		3,950			800	4,750	760
Inventory	803,431	70,847				874,278	
<b>Total Current Assets</b>	<b>19,178,301</b>	<b>1,266,840</b>	<b>15,016,849</b>	<b>8,710,818</b>	<b>967,296</b>	<b>45,140,104</b>	<b>1,617,450</b>
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,072,242		6,643,859			8,716,101	
Other Noncurrent Assets:							
Advances due from other funds	885,687					885,687	788,478
Unamortized capital debt issue costs	115,435	405,154	787,117			1,307,706	
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	9,275,694	6,909,823	81,465,398		1,233,407	98,884,322	
Buildings and improvements	25,428,776	18,130,288	10,179,727		2,943,142	56,681,933	327,113
Licensed vehicles	1,372,176	373,625	510,766	101,296	191,707	2,549,570	26,574
Machinery and equipment	2,713,894	1,940,828	1,132,951	404,039	401,486	6,593,198	413,227
Less: Accumulated depreciation	(19,821,122)	(6,728,366)	(7,449,012)	(305,544)	(3,642,470)	(37,946,514)	(317,871)
Construction in progress	1,489,544	1,466,770	808,975		884,335	4,649,624	
<b>Total Noncurrent Assets</b>	<b>25,041,875</b>	<b>22,627,328</b>	<b>94,870,502</b>	<b>899,445</b>	<b>5,518,870</b>	<b>148,958,020</b>	<b>1,237,521</b>
<b>Total Assets</b>	<b>44,220,176</b>	<b>23,894,168</b>	<b>109,887,351</b>	<b>9,610,263</b>	<b>6,486,166</b>	<b>194,098,124</b>	<b>2,854,971</b>

continued

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

**CITY OF UKIAH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010**

	<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>
<b><u>LIABILITIES</u></b>							
Current Liabilities:							
Accounts payable	225,634	158,463	1,942,924	1,963	167,183	2,496,167	92,455
Accrued salaries and benefits	111,624	45,563	57,712	1,104	36,153	252,156	77,642
Accrued compensated absences	94,572	15,858	72,068	3,257	34,053	219,808	66,710
Contract retentions payable	67,891	15,454				83,345	
Accrued interest payable		245,115	14,421	1,772	4,296	265,604	
Customer deposits					2,162	2,162	
Due to other funds					62,935	62,935	
Current portion of long-term debt		429,671	1,556,771			1,986,442	
<b>Total Current Liabilities</b>	<b>499,721</b>	<b>910,124</b>	<b>3,643,896</b>	<b>8,096</b>	<b>306,782</b>	<b>5,368,619</b>	<b>236,807</b>
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,240,000					1,240,000	
Accrued interest payable	65,469		1,090,967			1,156,436	
<b>Total Current Liabilities Payable From Restricted Assets</b>	<b>1,305,469</b>	<b>-</b>	<b>1,090,967</b>	<b>-</b>	<b>-</b>	<b>2,396,436</b>	<b>-</b>
Noncurrent Liabilities:							
Advances from other funds		745,000			731,198	1,476,198	
Installment obligation (net of unamortized discount)		13,277,960	72,318,125			85,596,085	
State loans payable		1,641,178	1,950,629			3,591,807	
Revenue bonds payable (net of unamortized discount)	11,102,216					11,102,216	
Estimated landfill closure costs				8,594,214		8,594,214	
<b>Total Noncurrent Liabilities</b>	<b>11,102,216</b>	<b>15,664,138</b>	<b>74,268,754</b>	<b>8,594,214</b>	<b>731,198</b>	<b>110,360,520</b>	<b>-</b>
<b>Total Liabilities</b>	<b>12,907,406</b>	<b>16,574,262</b>	<b>79,003,617</b>	<b>8,602,310</b>	<b>1,037,980</b>	<b>118,125,575</b>	<b>236,807</b>
<b><u>NET ASSETS</u></b>							
Invested in capital assets, net of related debt	9,398,510	6,976,326	11,672,126	912,192	4,244,017	33,203,171	438,421
Restricted for debt service	2,006,773					2,006,773	
Unrestricted	19,907,487	343,580	19,211,608	95,761	1,204,169	40,762,605	2,179,743
<b>Total Net Assets</b>	<b>\$ 31,312,770</b>	<b>\$ 7,319,906</b>	<b>\$ 30,883,734</b>	<b>\$ 1,007,953</b>	<b>\$ 5,448,186</b>	<b>\$ 75,972,549</b>	<b>\$ 2,618,164</b>

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, 2010**

	<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>
<b><u>OPERATING REVENUES</u></b>							
Charges for current services	\$ 15,143,616	\$ 2,698,112	\$ 7,406,041	\$ 60,000	\$ 2,215,151	\$ 27,522,920	\$ 2,654,837
Licenses and permits					76,301	76,301	
Fines, forfeitures and penalties					77,182	77,182	
Other revenues	4,596	100	13,694	6,947	77,763	103,100	1,138,173
Total Operating Revenues	<u>15,148,212</u>	<u>2,698,212</u>	<u>7,419,735</u>	<u>66,947</u>	<u>2,446,397</u>	<u>27,779,503</u>	<u>3,793,010</u>
<b><u>OPERATING EXPENSES</u></b>							
Purchased power	9,185,939					9,185,939	
Operations	2,339,446	702,710	1,207,512	23,333	1,451,953	5,724,954	1,895,914
Maintenance		517,639	555,031	282,639	88,758	1,444,067	34,339
Fuels and lubricants					525,338	525,338	11,463
Utilities		263,198	288,676	15,692	288,815	856,381	16,090
General and administration	1,518,507	878,573	811,608	46,973	110,582	3,366,243	202,961
Insurance premiums and deductibles							1,222,618
Depreciation	953,664	591,851	360,924	12,747	141,557	2,060,743	25,398
Total Operating Expenses	<u>13,997,556</u>	<u>2,953,971</u>	<u>3,223,751</u>	<u>381,384</u>	<u>2,607,003</u>	<u>23,163,665</u>	<u>3,408,783</u>
Operating Income	<u>1,150,656</u>	<u>(255,759)</u>	<u>4,195,984</u>	<u>(314,437)</u>	<u>(160,606)</u>	<u>4,615,838</u>	<u>384,227</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>							
Taxes					10,155	10,155	
From other agencies			1,163,642		583,908	1,747,550	14,798
Interest income	499,173	25,469	305,677	232,173	28,724	1,091,216	15,607
Interest expense and fiscal charges	(903,150)	(675,991)	(77,449)		(29,407)	(1,685,997)	
Total Nonoperating Revenues (Expenses)	<u>(403,977)</u>	<u>(650,522)</u>	<u>1,391,870</u>	<u>232,173</u>	<u>593,380</u>	<u>1,162,924</u>	<u>30,405</u>
Income Before Special Items And Transfers	746,679	(906,281)	5,587,854	(82,264)	432,774	5,778,762	414,632
Transfers in					63,500	63,500	
Transfers out	(1,058,782)	(16,903)				(1,075,685)	
Change In Net Assets	<u>(312,103)</u>	<u>(923,184)</u>	<u>5,587,854</u>	<u>(82,264)</u>	<u>496,274</u>	<u>4,766,577</u>	<u>414,632</u>
Total Net Assets - beginning	31,624,873	8,243,090	25,295,880	1,090,217	4,951,912	71,205,972	2,203,532
<b>Total Net Assets - ending</b>	<b><u>\$ 31,312,770</u></b>	<b><u>\$ 7,319,906</u></b>	<b><u>\$ 30,883,734</u></b>	<b><u>\$ 1,007,953</u></b>	<b><u>\$ 5,448,186</u></b>	<b><u>\$ 75,972,549</u></b>	<b><u>\$ 2,618,164</u></b>

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, 2010**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<b>Cash Flows From Operating Activities:</b>							
Receipts from customers and users	\$ 14,976,831	\$ 2,668,783	\$ 7,490,536	\$ 66,947	\$ 2,433,990	\$ 27,637,087	\$ 286,998
Receipts from interfund services provided							3,462,835
Payments to suppliers	(10,849,953)	(1,540,833)	(1,866,792)	(168,495)	(1,775,717)	(16,201,790)	(2,291,416)
Payments to employees	(1,474,328)	(527,074)	(653,185)	(14,781)	(509,749)	(3,179,117)	(1,189,787)
Payments for interfund services provided	(519,710)	(295,875)	(314,783)	(621)	(133,950)	(1,264,939)	
Net Cash Provided (Used) By Operating Activities	<u>2,132,840</u>	<u>305,001</u>	<u>4,655,776</u>	<u>(116,950)</u>	<u>14,574</u>	<u>6,991,241</u>	<u>268,630</u>
<b>Cash Flows From Noncapital Financing Activities:</b>							
Property taxes and subventions					10,852	10,852	
From(To) other agencies		(16,903)	525,642			508,739	
Advances from(to) other funds	61,761					61,761	35,097
Transfers in(out)	(1,058,782)				63,500	(995,282)	
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(997,021)</u>	<u>(16,903)</u>	<u>525,642</u>	<u>-</u>	<u>74,352</u>	<u>(413,930)</u>	<u>35,097</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>							
Acquisition and construction of capital assets	(1,495,634)	(1,471,791)	(6,238,851)		(600,334)	(9,806,610)	(36,401)
Capital grants					570,742	570,742	
Principal paid on capital debt	(1,165,000)	(415,470)	(1,546,380)			(3,126,850)	
Interest paid on capital debt	(858,437)	(671,553)	(3,417,246)		(29,821)	(4,977,057)	
Trustee fees	(6,172)					(6,172)	
From other agencies			638,000			638,000	14,798
Advances from(to) other funds		745,000			(63,036)	681,964	(745,000)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(3,525,243)</u>	<u>(1,813,814)</u>	<u>(10,564,477)</u>	<u>-</u>	<u>(122,449)</u>	<u>(16,025,983)</u>	<u>(766,603)</u>
<b>Cash Flows From Investing Activities:</b>							
Interest on investments	499,173	25,469	314,172	232,173	28,724	1,099,711	15,607
Net Cash Provided (Used) By Investing Activities	<u>499,173</u>	<u>25,469</u>	<u>314,172</u>	<u>232,173</u>	<u>28,724</u>	<u>1,099,711</u>	<u>15,607</u>
Net Increase (Decrease) In Cash	(1,890,251)	(1,500,247)	(5,068,887)	115,223	(4,799)	(8,348,961)	(447,269)
Cash Balance - beginning	20,036,849	2,282,376	26,282,092	8,595,595	866,232	58,063,144	1,928,934
<b>Cash Balance - ending</b>	<u>\$ 18,146,598</u>	<u>\$ 782,129</u>	<u>\$ 21,213,205</u>	<u>\$ 8,710,818</u>	<u>\$ 861,433</u>	<u>\$ 49,714,183</u>	<u>\$ 1,481,665</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, 2010**

	<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>
<b>Reconciliation of Cash Balance:</b>							
Cash	\$ 16,074,356	\$ 782,129	\$ 14,569,346	\$ 8,710,818	\$ 861,433	\$ 40,998,082	\$ 1,481,665
Restricted cash with fiscal agent	2,072,242		6,643,859			8,716,101	
<b>Cash Balance - ending</b>	<b><u>\$ 18,146,598</u></b>	<b><u>\$ 782,129</u></b>	<b><u>\$ 21,213,205</u></b>	<b><u>\$ 8,710,818</u></b>	<b><u>\$ 861,433</u></b>	<b><u>\$ 49,714,183</u></b>	<b><u>\$ 1,481,665</u></b>
<b>Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:</b>							
Operating income (loss)	\$ 1,150,656	\$ (255,759)	\$ 4,195,984	\$ (314,437)	\$ (160,606)	\$ 4,615,838	\$ 384,227
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:							
Depreciation	953,664	591,851	360,924	12,747	141,557	2,060,743	25,398
Decrease (Increase) in receivables	(171,381)	(29,429)	70,801		(12,407)	(142,416)	(42,430)
Decrease (Increase) in inventory	(30,259)	(1,403)				(31,662)	
Decrease (Increase) in deposits		(150)				(150)	
Decrease (Increase) in payables	230,160	(5,382)	28,067	184,740	46,030	483,615	(98,565)
Amortization		5,273				5,273	
<b>Net Cash Provided (Used) By Operating Activities</b>	<b><u>\$ 2,132,840</u></b>	<b><u>\$ 305,001</u></b>	<b><u>\$ 4,655,776</u></b>	<b><u>\$ (116,950)</u></b>	<b><u>\$ 14,574</u></b>	<b><u>\$ 6,991,241</u></b>	<b><u>\$ 268,630</u></b>
<b>Non-Cash Transactions:</b>							
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				\$ 185,003		185,003	

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

**CITY OF UKIAH  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2010**

	<b>Private Purpose Trust</b>	<b>Agency Funds</b>
<b><u>ASSETS</u></b>		
Assets:		
Cash and investments	\$ 1,851,084	\$ 4,268,984
Receivables:		
Accounts (net)	35,553	190,963
Unbilled		17,930
 Total Assets	 1,886,637	 4,477,877
<b><u>LIABILITIES</u></b>		
Liabilities:		
Accounts payable	\$6,223	115,239
Accrued salaries and benefits	87,768	
Utility and other deposits	1,175,065	
Due to Ukiah Valley Sanitation District		3,754,619
Due to Solid Wastes Systems		531,777
Due to Russian River JPA		76,242
 Total Liabilities	 1,269,056	 \$ 4,477,877
<b><u>NET ASSETS</u></b>		
Held in trust for other purposes	\$ 617,581	

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

**CITY OF UKIAH  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private Purpose Trust</u>
<b><u>Additions</u></b>	
Taxes	\$ 26,102
Use of money and property	169
Total Additions	<u>26,271</u>
<b><u>Deductions</u></b>	
Current:	
Community development	17,733
Retirement benefits	356,341
Total Deductions	<u>374,074</u>
Change in net assets	(347,803)
Net Assets - beginning	965,384
Net Assets - ending	<u><u>\$ 617,581</u></u>

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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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, 2010**

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 customers 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, 2010**

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 \$1,651,629 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2010. 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, 2010.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$779,277, including \$113,078 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 1<sup>st</sup> and were levied on July 1<sup>st</sup>. Taxes are due in two equal installments on November 1<sup>st</sup> and February 1<sup>st</sup>. The City relies on the competency of the County of Mendocino Assessor's office to properly assess, collect and distribute property taxes.

Proposition 1A Borrowing by the State of California – Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period. The amount of this borrowing pertaining to the City of Ukiah was \$239,795.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

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 tax allocation bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond or other covenants.

**CITY OF UKIAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

5) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-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.

The City's museum contains collections of historical artifacts including artwork, Native American artifacts, and relics from the region's past. These collections are protected, cared for and preserved by the City for the purpose of public exhibition; and proceeds from the sale of any item, if any, are used to acquire additional items for the collection. Therefore, the City has elected not to capitalize these collections.

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, 2010, net interest expense of \$3,341,540 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:

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.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**2 Stewardship, Compliance And Accountability**

**A) Budgetary Information**

Annual budgets are adopted for all governmental funds except the certain minor Special Revenue Funds including: Museum Grant, Asset Seizure (Drug/Alcohol), H&S Education, Federal Assets Seizure, Local Law Enforcement, Federal Emergency Shelter Grant, CDBG, EDBG 94-333 Revolving Loan, Community Development, SB 325 Reimbursement, Trans-Traffic Congestion, 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 \$5,434,010 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 reapportioned and honored during the subsequent year.

**B) Excess Of Expenditures Over Appropriations**

For the year ended June 30, 2010, the following fund had expenditures exceeding appropriations:

Expenditures Over Appropriations:	
Supplemental Law Enforcement	\$ (22,368)
Bridge	(214,588)
Fixed Asset	(80,154)

**C) Deficit Fund Equity**

The following funds had deficit fund balances as of June 30, 2010. 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	\$ (15,020)
Bridge	(41,807)
STIP Augmentation	(33,463)
FEMA	(24,607)

**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	\$ 65,567,888
Restricted cash with fiscal agent	9,209,398
Statement of Fiduciary Net Assets:	
Cash and investments	6,120,068
Total Cash and Investments	<u>\$ 80,897,354</u>

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

Cash and investments consist of the following:

Cash on hand	\$	2,950
Deposits with financial institutions		2,489,103
Investments		78,405,301
Total Cash and Investments		\$ 80,897,354

**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.

**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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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, 2010, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 14,239,184	1.93
U.S Treasury Bonds and Notes	11,218,468	1.32
U.S. Government Agency Bonds and Notes	41,055,046	1.94
Municipal and State Bonds	1,344,499	0.05
State Investment Pool (LAIF)	1,338,706	0.56
Held By Bond Trustee:		
Money Market Funds	9,209,398	0.00
 Total Fair Value	 <u>\$ 78,405,301</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, 2010, the City's investments were in compliance with the ratings required by the City's investment policy and indenture agreements.

Investment Type	Fair Value	Exempt From Disclosure	Year End Rating			Not Rated
			AAA/AAAm	AA+/AA/AA-	A+/A-1+	
Corporate Bonds and Notes	\$ 14,239,184		\$ 8,864,606	\$ 2,774,422	\$ 2,600,156	
U.S Treasury Bonds and Notes	11,218,468	\$ 11,218,468				
U.S. Government Agency Bonds and Notes	41,055,046		41,055,046			
Municipal and State Bonds	1,344,499			1,344,499		
State Investment Pool	1,338,706					\$ 1,338,706
Held By Bond Trustee:						
Money Market Funds	9,209,398		9,209,398			
 Total Fair Value	 <u>\$ 78,405,301</u>	 <u>\$ 11,218,468</u>	 <u>\$ 59,129,050</u>	 <u>\$ 4,118,921</u>	 <u>\$ 2,600,156</u>	 <u>\$ 1,338,706</u>

**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. At June 30, 2010, there were no 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.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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 \$2,835,686, of which \$638,136 was covered by federal depository insurance. The \$2,197,550 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2010, 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	\$ 14,239,184
U.S Treasury Bonds and Notes	11,218,468
U.S. Government Agency Bonds and Notes	41,055,046
Municipal and State Bonds	1,344,499

**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 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.

**CITY OF UKIAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**B) Capital Assets**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<b>Government Activities:</b>				
Nondepreciable Capital Assets:				
Land	\$ 2,536,776	\$ 1,157,256		\$ 3,694,032
Construction in progress	1,008,571	1,218,746		2,227,317
Total Nondepreciable Capital Assets	<u>3,545,347</u>	<u>2,376,002</u>	<u>\$ -</u>	<u>5,921,349</u>
Depreciable Capital Assets:				
Land improvements	861,675	96,434		958,109
Infrastructure	30,727,991	1,592,553		32,320,544
Buildings	5,998,665	334,848		6,333,513
Licensed vehicles	3,427,883	763,765	13,600	4,178,048
Machinery and equipment	3,047,194	60,825	123,267	2,984,752
Total Depreciable Capital Assets	<u>44,063,408</u>	<u>2,848,425</u>	<u>136,867</u>	<u>46,774,966</u>
Less: Accumulated Depreciation:				
Land improvements	(763,005)	(18,150)		(781,155)
Infrastructure	(18,429,974)	(472,738)		(18,902,712)
Buildings	(2,244,096)	(121,355)		(2,365,451)
Licensed vehicles	(2,117,256)	(228,215)	(13,600)	(2,331,871)
Machinery and equipment	(1,725,748)	(189,459)	(123,267)	(1,791,940)
Total Accumulated Depreciation	<u>(25,280,079)</u>	<u>(1,029,917)</u>	<u>(136,867)</u>	<u>(26,173,129)</u>
Depreciable Capital Assets, net	<u>18,783,329</u>	<u>1,818,508</u>	<u>-</u>	<u>20,601,837</u>
Governmental Activities Capital Assets, net	<u>\$ 22,328,676</u>	<u>\$ 4,194,510</u>	<u>\$ -</u>	<u>\$ 26,523,186</u>
<b>Business-Type Activities:</b>				
Nondepreciable Capital Assets:				
Land	\$ 4,673,811			\$ 4,673,811
Construction in progress	70,735,475	\$ 10,022,156	\$ 76,108,007	4,649,624
Total Nondepreciable Capital Assets	<u>75,409,286</u>	<u>10,022,156</u>	<u>76,108,007</u>	<u>9,323,435</u>
Depreciable Capital Assets:				
Land improvements	1,962,582			1,962,582
Infrastructure	23,865,042	76,108,007	1,088,727	98,884,322
Buildings and improvements	56,681,933			56,681,933
Licensed vehicles	2,601,311		51,741	2,549,570
Machinery and equipment	5,493,360	1,099,838		6,593,198
Total Depreciable Capital Assets	<u>90,604,228</u>	<u>77,207,845</u>	<u>1,140,468</u>	<u>166,671,605</u>
Less: Accumulated Depreciation:				
Land improvements	(1,020,767)	(55,233)		(1,076,000)
Infrastructure	(11,517,013)	(477,191)		(11,994,204)
Buildings and improvements	(18,605,275)	(1,118,860)		(19,724,135)
Licensed vehicles	(1,805,511)	(158,227)	(51,741)	(1,911,997)
Machinery and equipment	(2,988,946)	(251,232)		(3,240,178)
Total Accumulated Depreciation	<u>(35,937,512)</u>	<u>(2,060,743)</u>	<u>(51,741)</u>	<u>(37,946,514)</u>
Depreciable Capital Assets, net	<u>54,666,716</u>	<u>75,147,102</u>	<u>1,088,727</u>	<u>128,725,091</u>
Business-Type Activities Capital Assets, net	<u>\$ 130,076,002</u>	<u>\$ 85,169,258</u>	<u>\$ 77,196,734</u>	<u>\$ 138,048,526</u>

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

Governmental Activities:		
General government	\$	609,519
Public safety		248,812
Streets		87,525
Parks		78,882
Community development		5,179
Total Depreciation Expense - Governmental Activities		<u>\$ 1,029,917</u>
Business-Type Activities:		
Electric	\$	953,664
Water		591,851
Sewer		360,924
Disposal site		12,747
Airport		66,053
Parking		5,326
Golf course		22,640
Conference center		47,538
Total Depreciation Expense - Business-Type Activities		<u>\$ 2,060,743</u>

**Construction And Other Commitments**

The City completed several major construction projects as of June 30, 2010. The projects include expansion and upgrade of the sewage treatment plant and the construction of a bridge. The City is also in the process of developing new citywide financial software. At year-end the City's completed major commitments with contractors were as follows:

	Expended To-Date	Remaining Commitment
Sewage treatment plant expansion	\$ 76,108,006	\$ -
Orchard Bridge construction	1,592,553	-

**C) Interfund Receivables, Payables And Transfers**

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2010 is as follows:

Due To(From) Other Funds	Due From	Due To
General Fund	\$ 62,848	\$ 57,774
Electric Fund	65,467	
Nonmajor governmental funds	45,577	88,079
Nonmajor business-type funds		62,935
Internal service fund	34,896	
Total Due To(From) Other Funds	<u>\$ 208,788</u>	<u>\$ 208,788</u>

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

Advances Due To(From) Other Funds	Due From	Due To
General Fund	\$ 966,773	\$ 5,191
Electric Fund	885,687	
Water Fund		745,000
Nonmajor governmental funds		1,159,549
Nonmajor business-type funds		731,198
Internal service fund	788,478	
Total Advances Due To(From) Other Funds	<u>\$ 2,640,938</u>	<u>\$ 2,640,938</u>

The General and Electric funds have made long-term advances to the Ukiah Redevelopment Agency (RDA), a nonmajor governmental fund. The advances are payable upon demand, however, the RDA is repaying the advances over the next twelve (12) years.

The General and Liability funds have made long-term advances to the Golf Fund (a nonmajor enterprise fund) for the purpose of refunding a capital lease obligation and acquiring equipment.

The Liability Fund has made a long-term advance to the Water Fund for the purpose of water-related capital projects.

The current portion of the above advances total \$192,707 has been included in due to(from) other funds.

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$ 1,671,395	
Electric Fund		\$ 1,058,782
Nonmajor governmental funds	442,861	1,102,071
Nonmajor business-type funds	63,500	16,903
Total Transfers In(Out)	<u>\$ 2,177,756</u>	<u>\$ 2,177,756</u>

The General Fund received \$1,058,782 from the Electric Fund representing payments in-lieu of taxes. An additional \$612,613 was transferred from the Special Projects Fund (a non-major capital projects fund) to establish the Strategic General Fund Reserve.

The Park Development Fund received \$38,650 and \$17,403 from the Special Projects and Water funds, respectively, to finance park-related improvements.

The 1998 STIP Augmentation Fund received \$109,268 and \$135,426 from the Gas Tax and Traffic Congestion funds, respectively, for street-related projects.

The HOME 08-HOME-4088 received \$25,239 from the Community Development Fund for grant matching.

A \$116,875 transfer was made from the Special Projects Fund to the Fixed Asset Fund for future capital asset acquisitions.

The Airport Fund received \$63,500 from the Special Projects Fund for capital projects related to airport operations.

**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 \$227,784, at June 30, 2010 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$ 12,570,000

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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 1<sup>st</sup> and March 1<sup>st</sup>. At June 30, 2010 the installment obligation liability outstanding excluding the unamortized premium of \$102,960 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 13,485,000

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 1<sup>st</sup> and March 1<sup>st</sup>. At June 30, 2010 the installment obligation liability outstanding excluding the unamortized premium of \$58,125 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 73,460,000

**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, 2010, the balance of the loan was \$1,760,849. Principal and interest are payable semi-annually on April 1<sup>st</sup>, and October 1<sup>st</sup>, 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, 2010, the balance of the loan was \$2,307,400. Principal and interest are payable annually on April 15<sup>th</sup> 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 annually on December 1<sup>st</sup> 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%. Interest is paid semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup>.

**Landfill Closure And Postclosure Costs.** As more fully discussed in Note 5(D), long-term liabilities include \$8,594,214 in accrued landfill closure and postclosure costs. These liabilities are not included in the following discussion of debt service requirements.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
<b>Government Activities:</b>					
Tax Allocation Bonds	\$ 5,020,000		\$ 235,000	\$ 4,785,000	\$ 250,000
Deferred amounts:					
Issuance discounts	(61,340)		(3,718)	(57,622)	
Governmental Activities Long-Term Liabilities	<u>\$ 4,958,660</u>	<u>\$ -</u>	<u>\$ 231,282</u>	<u>\$ 4,727,378</u>	<u>\$ 250,000</u>
	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
<b>Business-Type Activities:</b>					
Electric revenue bonds payable	\$ 13,735,000		\$ 1,165,000	\$ 12,570,000	\$ 1,240,000
Deferred amounts:					
Issuance discounts	(256,257)		(28,473)	(227,784)	
Net revenue bonds payable	<u>13,478,743</u>	<u>\$ -</u>	<u>1,136,527</u>	<u>12,342,216</u>	<u>1,240,000</u>
Installment obligations payable:					
Water treatment plant	13,785,000		300,000	13,485,000	310,000
Wastewater treatment plant	74,660,000		1,200,000	73,460,000	1,600,000
Deferred amounts:					
Issuance premiums	167,434		6,349	161,085	
Net installment obligations payable	<u>88,612,434</u>	<u>-</u>	<u>1,506,349</u>	<u>87,106,085</u>	<u>1,910,000</u>
State loans:					
Water Resources - Water Treatment	1,876,319		115,470	1,760,849	119,671
Water Resources - Sewer Treatment	2,653,780		346,380	2,307,400	356,771
Total State loans	<u>4,530,099</u>	<u>-</u>	<u>461,850</u>	<u>4,068,249</u>	<u>476,442</u>
Landfill closure and post-closure	<u>8,409,211</u>	<u>185,003</u>	<u>-</u>	<u>8,594,214</u>	<u>-</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 115,030,487</u>	<u>\$ 185,003</u>	<u>\$ 3,104,726</u>	<u>\$ 112,110,764</u>	<u>\$ 3,626,442</u>

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.

Year Ended June 30,	Governmental Activities	
	Tax Allocation Bonds	
	Principal	Interest
2011	\$ 250,000	\$ 214,535
2012	265,000	200,373
2013	275,000	185,522
2014	295,000	171,765
2015	305,000	159,089
2016-2020	1,720,000	581,768
2021-2025	1,675,000	158,718
	<u>\$ 4,785,000</u>	<u>\$ 1,671,770</u>

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

Year Ended June 30,	Business-Type Activities					
	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,240,000	\$ 785,625	\$ 476,442	\$ 131,587	\$ 1,910,000	\$ 3,850,023
2012	1,325,000	708,125	491,497	116,534	1,980,000	3,773,422
2013	1,410,000	625,312	507,028	101,001	2,045,000	3,694,122
2014	1,500,000	537,188	523,055	84,975	2,115,000	3,612,123
2015	1,610,000	443,438	539,592	288,437	2,200,000	3,527,048
2016-2020	5,485,000	700,625	1,182,477	153,695	12,445,000	16,228,410
2021-2025			348,158	15,914	15,360,000	13,371,579
2026-2030					19,200,000	9,604,624
2031-2035					24,155,000	4,725,612
2036-2040					5,535,000	241,788
	<u>\$ 12,570,000</u>	<u>\$ 3,800,313</u>	<u>\$ 4,068,249</u>	<u>\$ 892,143</u>	<u>\$ 86,945,000</u>	<u>\$ 62,628,751</u>

**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.

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 \$39,500,000 (liability), \$300,000,000 (property), \$21,245,000 (boiler and machinery), \$5,000,000 (auto) and \$3,000,000 (workers' compensation) – all per occurrence. Losses exceeding these limits are the responsibility of 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, 2010, was \$888,585 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.

**CITY OF UKIAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010, the City paid \$9,185,938 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, 2010, the City's balance held in the reserve was \$8,470,749. 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.

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 \$1,494,392. During the year, the City received distribution from REMIF totaling \$286,998 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.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**C) Contingencies**

As discussed in Note 3D, the City has entered into an installment obligation with the Association of Bay Area Governments (ABAG) to finance capital improvements to the City's water treatment plant. As part of the agreement, the City made a covenant to maintain water rates and charges sufficient to cover specified costs and expenses of the water system including operation and maintenance costs and installment debt service payments. For the year ended June 30, 2010, water rates and charges were not sufficient to comply with the terms of the covenant.

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 \$8,594,214 (including \$853,036 for corrective action liability) as of June 30, 2010, 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, 2010, 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, 2010, held \$8,602,692 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.

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 of 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.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

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 2009/10 was 20.484% for miscellaneous employees, 28.402% for police, and 25.245% 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 2009/10 the City's annual pension cost was \$2,675,452 (\$1,686,803 for Miscellaneous, \$650,253 for Police and \$338,396 for Fire) and the City actually contributed \$2,675,452. In addition, the City paid \$1,022,818 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 2009/10 was determined as part of the June 30, 2007, actuarial valuation.

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

The actuarial value of the Plan's assets was determined using a 15-year smoothed market technique that smoothes the effect of short-term volatility in the market value of investments over a multi-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, 2010, the remaining average amortization period was 30 years for Miscellaneous, and 10 years for Police and 10 years for Fire.

Year Ending June 30,	Three-Year Trend Information			Percentage Contributed	Net Pension Obligation
	Annual Pension Cost				
	<u>Miscellaneous</u>	<u>Police</u>	<u>Fire</u>		
2008	\$ 1,466,615	\$ 563,327	\$ 193,528	100%	\$ -
2009	1,382,771	540,944	270,113	100%	-
2010	1,686,803	650,253	338,396	100%	-

**CITY OF UKIAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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.

**H) Extraordinary Item**

Under the provisions of AB 26x4 passed by the California State Legislature in response to the State's looming budget deficient, the Ukiah Redevelopment Agency was required to remit a payment of \$1,746,178 to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF). An additional payment of \$359,158 will be required in fiscal year 2010/11.

**I) Subsequent Event – Ukiah Redevelopment Agency Bond Issues**

On March 8, 2011, the Ukiah Redevelopment Agency (Agency) issued \$5,180,000 Tax Allocation Bonds, 2011 Series A. The bonds are a special obligation of the Agency payable solely from and secured by a pledge of Agency tax revenues. The bonds carry an interest rate ranging from 3.0% to 6.5%. Proceeds of the bonds will be used to finance redevelopment activities, fund a reserve account for the bond issue and provide for the cost of issuing the bonds.

On March 8, 2011, the Ukiah Redevelopment Agency (Agency) issued \$3,250,000 Taxable Tax Allocation Bonds, 2011 Series B. The bonds are a special obligation of the Agency payable solely from Agency housing tax revenues. The bonds carry an interest rate ranging from 3.25% to 9.0%. Proceeds of the bonds will be used to finance redevelopment activities benefiting low and moderate income housing, fund a reserve account for the bond issue and provide for the cost of issuing the bonds.

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, 2010**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b><u>REVENUES</u></b>				
Taxes:				
Property	\$ 604,132	\$ 604,132	\$ 1,243,222	\$ 639,090
Sales and use	5,918,763	6,118,522	5,776,015	(342,507)
Property transfer	32,744	32,744	35,397	2,653
Transient occupancy	746,350	746,350	661,149	(85,201)
Business license	281,494	281,494	355,954	74,460
Franchise	565,386	565,386	545,503	(19,883)
Licenses and permits	109,050	568,205	337,508	(230,697)
Fines, forfeitures, and penalties	50,250	50,250	59,860	9,610
From other agencies	1,215,534	1,532,738	1,399,364	(133,374)
Use of money and property	893,718	893,718	1,060,788	167,070
Charges for current services	854,225	854,226	1,024,323	170,097
Other	1,100	1,100	4,667	3,567
Total Revenues	<u>11,272,746</u>	<u>12,248,865</u>	<u>12,503,750</u>	<u>254,885</u>
<b><u>EXPENDITURES</u></b>				
Current:				
General government	1,691,521	2,100,328	1,661,482	438,846
Public safety	8,862,847	8,909,878	8,666,988	242,890
Public works	1,176,166	1,487,521	1,085,497	402,024
Parks and recreation	1,712,708	1,749,204	1,792,098	(42,894)
Community development	100,825	103,923	24,083	79,840
Debt service	12,552	12,552	715	11,837
Capital outlay	168,000	262,937	161,616	101,321
Total Expenditures	<u>13,724,619</u>	<u>14,626,343</u>	<u>13,392,479</u>	<u>1,233,864</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,451,873)</u>	<u>(2,377,478)</u>	<u>(888,729)</u>	<u>1,488,749</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	1,445,833	1,445,833	1,671,395	225,562
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>1,445,833</u>	<u>1,445,833</u>	<u>1,671,395</u>	<u>225,562</u>
Net Change In Fund Balances	(1,006,040)	(931,645)	782,666	1,714,311
Fund Balances, July 1,	4,907,896	4,907,896	4,907,896	-
<b>Fund Balances, June 30,</b>	<b><u>\$ 3,901,856</u></b>	<b><u>\$ 3,976,251</u></b>	<b><u>\$ 5,690,562</u></b>	<b><u>\$ 1,714,311</u></b>

**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]
06/30/07	\$ 37,302,948	\$ 47,466,073	\$ 10,163,125	78.6%	\$ 6,716,418	151.3%
06/30/08	39,778,271	51,178,198	11,399,927	77.7%	7,612,226	149.8%
06/30/09	41,387,732	56,077,434	14,689,702	73.8%	7,657,251	191.8%

## OTHER COMPLIANCE REPORTS

**CITY OF UKIAH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<b><u>Department of Housing and Urban Development</u></b>		
Passed through State Department of Housing and Community Development:		
Home Investment Partnerships Program:		
08-HOME-4688	14.239	\$ 335,832
<b>Total Department of Housing and Urban Development</b>		<b>335,832</b>
<b><u>Department of Transportation</u></b>		
Airport Improvement Program:		
03-06-0268-10	20.106	11,826
03-06-0268-11	20.106	553,859
Passed through State Department of Transportation:		
Highway Planning and Construction:		
STPLER-5049(013)	20.205	283,554
<b>Total Department of Transportation</b>		<b>849,239</b>
<b><u>Department of Justice</u></b>		
Public Safety Partnership and Community Policing Grants:		
ARRA - COPS Hiring Recovery Program:		
2009RKWX0124	16.710	79,301
<b>Total Department of Justice</b>		<b>79,301</b>
<b><u>Department of Commerce</u></b>		
Investments for Public Works and Economic Development Facilities		
07-01-06042	11.300	1,089,961
<b>Total Department of Commerce</b>		<b>1,089,961</b>
<b><u>Department of Homeland Security</u></b>		
Federal Emergency Management Agency:		
Public Assistance Grant		
FEMA-1628-DR, 2005/2006 Winter Storms	97.036	93,648
<b>Total Department of Homeland Security</b>		<b>93,648</b>
<b>TOTALS</b>		<b>\$ 2,447,981</b>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
JUNE 30, 2010**

**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.



**DAVIS HAMMON & CO.**  
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON 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 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-01.

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



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.*

April 9, 2011



**DAVIS HAMMON & CO.**  
Certified Public Accountants

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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, 2010. The City of Ukiah's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above 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 identified in the accompanying schedule of findings and questioned costs 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 each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of City of Ukiah is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the 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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



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

This report is intended solely for the information and use of the City Council, management, others within the organization, the Office of the Controller of the State of California, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Davis Hammon & Co.*

April 9, 2011

**CITY OF UKIAH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2010**

**A) Summary of Audit Results**

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements.
- 2) No control deficiencies were 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 an unqualified opinion.
- 6) No instances of noncompliance material to major federal award programs of the City of Ukiah were disclosed during the audit.
- 7) The programs tested as major programs included:
  - a. Department of Commerce  
Investments for Public Works and Economic Development Facilities  
CFDA: 11.300
  - b. Department of Transportation  
Airport Improvement Program  
CFDA: 20.106
  - c. Department of Housing and Urban Development  
Home Investment Partnerships Program  
CFDA: 14.239
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) The City of Ukiah was determined not to be a low-risk auditee.

**B) Findings – Financial Statement Audit**

2010-01: Noncompliance with Rate Covenant

Criteria and Condition: The City has entered into an installment obligation with the Association of Bay Area Governments (ABAG). As part of that obligation, the City has made a covenant to maintain water system rates and charges at a level sufficient to cover certain specified costs and expenses, including operations and maintenance costs and debt service payments.

Context: Based on the terms as defined in the installment obligation agreement, the gross revenues from the City's water system were \$271,173 less than the amount needed to meet the terms of the covenant, and the net revenue fell short by \$485,445.

Cause: Actual water-system revenues were lower than amounts anticipated by budgetary estimates. Due to local drought conditions, the City actively promoted water conservation that had a significant impact on customer water usage.

Potential Effect: Upon written notice of the noncompliance by ABAG, the obligation insurer, or trustee, the City will have 60 days to respond that in its reasonable opinion the failure can be corrected. If, after receiving written notice of nonperformance, the City does not take reasonable steps to cure the failure, an event of default can be declared.

Recommendation: The City needs to monitor water system rates and charges in relation to costs and expenses to ensure compliance with the revenue covenant.

Management's Response: In the fall of 2008, the fifth and final rate increase in the multi-year rate schedule was implemented. The City Council authorized a new rate study in 2009. Initially, a new rate plan was anticipated to be implemented during fiscal 2009/2010. The new rate plan was delayed and was finally put into effect in July 2010.

Also, in 2009, Northern California experienced drought conditions, which caused the State of California to call for active conservation measures for all water consumers. The City of Ukiah customers affirmatively responded to the call for conservation. The water enterprise experienced a corresponding reduction in consumption, and resulting reduction in revenues.

The combination of a delayed rate increase and unusual revenue reduction resulted in a failure to generate sufficient revenue to meet the rate covenants. The rate schedule implemented in July, 2010 increased rates by 49%. The rate schedule also authorized four additional annual increases of 15%, 9%, 10%, and 3% each July from 2011 through 2014. These rate increases were computed to generate revenue sufficient to meet the bond covenants in these years. City staff plans to update the rate model with each year's actual results to add an additional step in projecting not only the next year's compliance, but also the projected compliance in future years. While the increase in July 2010 was significant, the resulting rates are comparable to other water purveyors adjacent to the City.

Status of prior year findings:

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, 2010. 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: The annual limit adopted by the City Council resolution did not agree with the limit as computed by the alternate computation worksheets. The amount adopted by resolution was \$29,894,305 while the alternate worksheets computed a limit of \$31,760,230.

- 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.*

April 9, 2011