

**UKIAH REDEVELOPMENT AGENCY
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2007

**UKIAH REDEVELOPMENT AGENCY
TABLE OF CONTENTS
JUNE 30, 2007**

<u>Financial Section</u>	<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report		2
Government-wide Financial Statements:		
Statement of Net Assets	One	3
Statement of Activities	Two	4
Fund Financial Statements:		
Balance Sheet – Governmental Funds	Three	5
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	Four	6
Reconciliation of the Statement of Revenues, Expenditures, And Changes In Fund Balances of Governmental Funds To the Statement of Activities		7
Notes to Financial Statements		8 - 15
	<u>Schedule</u>	
<u>Required Supplemental Information</u>		
Schedule of Revenues, Expenditures, and Changes In Fund Balances – Budget and Actual – General Fund	I	17
Schedule of Revenues, Expenditures, and Changes In Fund Balances – Budget and Actual – Low And Moderate Income Housing Fund	II	18
<u>Compliance Section</u>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		20 - 21

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
Members of the City of Ukiah
Acting as the Governing Body for the
Ukiah Redevelopment Agency
Ukiah, California 95482

We have audited the accompanying financial statements of the governmental activities of the Ukiah Redevelopment Agency as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ukiah Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities of the Ukiah Redevelopment Agency as of June 30, 2007, and the respective change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Ukiah Redevelopment Agency has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2007, on our consideration of the Ukiah Redevelopment Agency'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 required supplementary information on pages 17 - 18 is not a required part of the basic financial statements but is 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.

Davis Hammon & Co.

December 26, 2007

**UKIAH REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and investments	\$12,846,429
Cash with fiscal agent	489,732
Deferred charges	120,852
Receivables:	
Property taxes	344,559
Loans	888,504
Capital assets (net of accumulated depreciation)	1,505,563
 Total Assets	 <u>16,195,639</u>
 <u>LIABILITIES</u>	
Liabilities:	
Accounts payable and other current liabilities	60,169
Accrued interest payable	24,716
Deferred income	888,004
Due to City of Ukiah	1,468,798
Noncurrent Liabilities:	
Due within one year	345,000
Due in more than one year	5,181,225
 Total Liabilities	 <u>7,967,912</u>
 <u>NET ASSETS</u>	
Restricted For:	
Low and moderate income housing	2,403,858
Capital projects of outside agencies	3,734,057
Unrestricted	2,089,812
 Total Net Assets	 <u><u>\$8,227,727</u></u>

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

**UKIAH REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue And Changes In Net Assets</u>	
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General administration	\$423,434				(\$423,434)
Low and moderate income housing	318,664	85,547			(233,117)
Capital projects	39,578				(39,578)
Depreciation	659				(659)
Debt service:					
Interest and fiscal charges	442,115				(442,115)
 Total Governmental Activities	 <u>\$1,224,450</u>	 <u>\$85,547</u>	 <u>\$0</u>	 <u>\$0</u>	 <u>(1,138,903)</u>
 General Revenues:					
Taxes					4,412,995
Use of money and property					365,767
 Total General Revenues And Transfers					 <u>4,778,762</u>
 Change In Net Assets					 <u>3,639,859</u>
Net Assets - beginning					4,634,819
Prior period adjustment					(46,951)
 Net Assets - beginning, as restated					 <u>4,587,868</u>
 Net Assets - Ending					 <u>\$8,227,727</u>

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

**UKIAH REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>ASSETS</u>	<u>General</u>	<u>Low & Moderate Income Housing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and investments	\$79,096	\$2,352,734	\$2,564,447	\$7,850,152	\$12,846,429
Cash with fiscal agent			489,732		489,732
Receivables:					
Property taxes	34,627	68,912	65,427	175,593	344,559
Loans		888,504			888,504
Total Assets	<u>\$113,723</u>	<u>\$3,310,150</u>	<u>\$3,119,606</u>	<u>\$8,025,745</u>	<u>\$14,569,224</u>
 <u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$265				\$265
Accrued salaries & benefits	22,773	\$8,754			31,527
Accrued compensated absences	18,843	9,534			28,377
Deferred income		888,004			888,004
Due to City of Ukiah			\$1,468,798		1,468,798
Total Liabilities	<u>41,881</u>	<u>906,292</u>	<u>1,468,798</u>	<u>\$0</u>	<u>2,416,971</u>
Fund Balances:					
Reserved For:					
Encumbrances				2,026	2,026
Low and moderate income housing		2,403,858			2,403,858
Debt service			1,650,808		1,650,808
Capital outlay				8,023,719	8,023,719
Unreserved - undesignated	71,842				71,842
Total Fund Balances	<u>71,842</u>	<u>2,403,858</u>	<u>1,650,808</u>	<u>8,025,745</u>	<u>12,152,253</u>
Total Liabilities and Fund Balances	<u>\$113,723</u>	<u>\$3,310,150</u>	<u>\$3,119,606</u>	<u>\$8,025,745</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:					
Capital assets				\$1,512,318	
Accumulated depreciation				(6,755)	1,505,563
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:					
Ukiah Redevelopment Agency tax allocation bonds				(\$5,595,000)	
Deferred charge for issue costs (amortized over life of debt)				120,852	
Bond issuance discount (amortized over life of debt)				68,775	
Accrued interest payable on long-term debt				(24,716)	(5,430,089)
Net Assets Of Governmental Activities					<u>\$8,227,727</u>

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

UKIAH REDEVELOPMENT AGENCY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>REVENUES</u>	<u>General</u>	<u>Low & Moderate Income Housing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Taxes	\$443,518	\$882,599	\$838,003	\$2,248,875	\$4,412,995
Use of money and property	31,310	85,547	132,843	201,614	451,314
Total Revenues	474,828	968,146	970,846	2,450,489	4,864,309
 <u>EXPENDITURES</u>					
Current:					
Salaries and benefits	217,465	98,792			316,257
Operating expenses	80,984	2,103		4,842	87,929
Contractual services	67,535	203,082		26,850	297,467
Governmental services	57,450	14,687		7,886	80,023
Debt service:					
Principal			5,632,452		5,632,452
Interest and fiscal charges			443,885		443,885
Bond issue costs			122,485		122,485
Total Expenditures	423,434	318,664	6,198,822	39,578	6,980,498
Excess (Deficiency) of Revenues Over Expenditures	51,394	649,482	(5,227,976)	2,410,911	(2,116,189)
 <u>OTHER FINANCING SOURCES (USES)</u>					
Proceeds from bonds issued			5,595,000		5,595,000
Discount on bonds issued			(69,704)		(69,704)
Total Other Financing Sources (Uses)	0	0	5,525,296	0	5,525,296
Net Change In Fund Balances	51,394	649,482	297,320	2,410,911	3,409,107
Fund Balances, July 1,	20,448	1,754,376	1,353,488	5,661,785	8,790,097
Prior period adjustment				(46,951)	(46,951)
Fund Balance, July 1, as restated	20,448	1,754,376	1,353,488	5,614,834	8,743,146
Fund Balances, June 30,	\$71,842	\$2,403,858	\$1,650,808	\$8,025,745	\$12,152,253

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

**UKIAH REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

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

Net change in fund balances - Total Governmental Funds		\$3,409,107
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Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Depreciation expense	<u>(\$659)</u>	(659)
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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:

Tax allocation bonds issued	(\$5,595,000)	
Deferred charge for issue costs (amortized over life of debt)	122,485	
Bond issuance discount (amortized over life of debt)	69,704	
Capital lease principal payments	5,475,000	
Long-term loan principal payments	<u>157,452</u>	229,641

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

Accrued interest payable	\$4,332	
Amortization of bond issue costs	(1,633)	
Amortization of bond discount	<u>(929)</u>	1,770

Change In Net Assets Of Governmental Activities		<u><u>\$3,639,859</u></u>
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The notes to financial statements are an integral part of this statement.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

1) Summary of Significant Accounting Policies

A) Reporting Entity

The Ukiah Redevelopment Agency is a Community Redevelopment Agency formed, organized and existing pursuant to the provisions of Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code. Pursuant to said law, the Agency is vested with the responsibility of carrying out a duly adopted redevelopment plan.

The financial statements of the Ukiah Redevelopment Agency have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Reporting Entity. The Ukiah Redevelopment Agency does not have any component units as determined under criteria established by GASB. However, the Agency's boundaries are within the City of Ukiah's city limits, it is governed by a Commission comprised of the members of the Ukiah City Council, and activities of the Agency will benefit the citizens of Ukiah. The Agency, therefore, is considered a component unit of the City of Ukiah. The City of Ukiah exercises significant financial and management control over the Agency. Therefore, the financial data of the Ukiah Redevelopment Agency have also been included within the City of Ukiah's annual financial report for the fiscal year ended June 30, 2007.

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 Agency. 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 Agency has no business-type activities.

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. The Agency has no proprietary or fiduciary funds. Major individual governmental 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*. 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 Agency 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.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Property taxes 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 Agency.

The Agency reports the following major governmental funds:

The *General Fund* is the Agency'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 *Low & Moderate Income Housing Fund* is a special revenue fund that accounts for resources accumulated and activities of the 20% set-a-side as required by the California Health & Safety Code Section 33334.3.

The *Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of the Agency.

The *Capital Projects Fund* accounts for resources accumulated and activities associated with the acquisition and construction of general fixed assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Agency'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 Agency are reported at fair value. The Agency'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. The Agency's investments held in the City of Ukiah's pooled investments.

2) Receivables And Payables

Activity between the Agency and the City of Ukiah that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from the City of Ukiah" (i.e. the current portion of Inter-agency loans).

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. No allowances for uncollectible receivables were recorded, as amounts were deemed immaterial as determined based on an analysis of historical trends.

Property taxes for the current year were attached as an enforceable lien as of January 1, 2006 and were levied on July 1, 2006. Taxes are due in two equal installments on November 1 and February 1. The Agency relies on the competency of the County of Mendocino Assessor's office to properly assess, collect and distribute property taxes.

3) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Agency 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.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

As of the balance sheet date, the Agency did not own any infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). As required by GASB Statement No. 34 (GASB-34), the Agency will begin reporting infrastructure assets as infrastructure assets acquired or constructed. During the current fiscal period no infrastructure assets were acquired or constructed.

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. No interest was capitalized during the year ended June 30, 2007.

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.

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

	<u>Years</u>
Machinery and equipment	5 - 20 years

4) Compensated Absences

It is the Agency's policy to allow an employee to accumulate no more than two years vacation. Full time Agency 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 Agency. All vacation pay is accrued when incurred in the government-wide and fund financial statements.

5) Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The cost of issuance and original issue discounts associated with the Agency's long-term debt have been capitalized and are being amortized over the life of the debt issue using the straight-line method.

6) Fund Equity

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

2) Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principals for all governmental funds. Annually, each Agency department submits a request for appropriation to the Executive Director 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 Board of Commissioners for review. The Board of Commissioners 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 Executive Director or the revenue estimates must be changed by an affirmative vote of a majority of the Board of Commissioners.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations totaling \$11,601 were adopted.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

Expenditures exceeded appropriations by \$7,839 in Agency's General Fund.

C) Deficit Fund Equity

None of the Agency's individual funds had deficit fund equities at June 30, 2007.

3) Detailed Notes On All Other Funds

A) Cash And Investments

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

Statement of Net Assets:	
Cash and investments	\$12,846,429
Cash with fiscal agent	489,732
Total Cash and Investments	\$13,336,161

Authorized Investments – Investment Policy

The Agency's investment policy is the same as the City of Ukiah, and the Agency's funds are pooled within the authorized pool of investments of the City. The table below identifies the types of investments that are authorized by the City's, and therefore Agency's, investment policy:

Authorized Investment Type	Maximum Maturity	Maximum Total of Portfolio	Maximum Investment In 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.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

Disclosures Relating to 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. As of June 30, 2007, the Agency's investments had no significant exposure to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency does not hold direct investments; therefore, there is no concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows deposits to be secured by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

B) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Government Activities:				
Nondepreciable Capital Assets:				
Land	\$1,505,728			\$1,505,728
Total Nondepreciable Capital Assets	1,505,728	\$0	\$0	1,505,728
Depreciable Capital Assets:				
Machinery and equipment	6,590			6,590
Total Depreciable Capital Assets	6,590	0	0	6,590
Less: Accumulated Depreciation:				
Machinery and equipment	(6,096)	(659)		(6,755)
Total Accumulated Depreciation	(6,096)	(659)	0	(6,755)
Depreciable Capital Assets, net	494	(659)	0	(165)
Governmental Activities Capital Assets, net	<u>\$1,506,222</u>	<u>(\$659)</u>	<u>\$0</u>	<u>\$1,505,563</u>

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

Governmental Activities:	
Community development	\$659
Total Depreciation Expense - Governmental Activities	<u>\$659</u>

C) Interfund Receivables, Payables And Transfers

The Agency made no interfund transfers during the year ended June 30, 2007.

D) Long-Term Debt

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Government Activities:					
Loans payable	\$5,632,452		\$5,632,452	\$0	\$0
Tax Allocation Bonds	0	\$5,595,000		5,595,000	345,000
Deferred amounts:					
Issuance discounts	0	(69,704)	(929)	(68,775)	
Governmental Activities					
Long-Term Liabilities	<u>\$5,632,452</u>	<u>\$5,525,296</u>	<u>\$5,631,523</u>	<u>\$5,526,225</u>	<u>\$345,000</u>

Ukiah Redevelopment Agency Tax Allocation Refunding Bonds, Series 2007. The Agency issued \$5,595,000 in tax allocation refunding bonds dated April 18, 2007. The proceeds from the bond issue were used to refund Agency's loan obligation under an agreement with the Redwood Empire Financing Authority described below. The refunding took advantage of lower interest rates that were available. There was no difference between the reacquisition price and the carrying amount of the old debt.

The 2007 bonds bear annual interest at varying rates between 3.65% and 4.75%. The bonds were issued in fully registered form without coupons in denominations of \$5,000. Interest on bonds becomes payable commencing December 1, 2007 and semi-annually thereafter each December 1st and June 1st. Principal is paid in annual installments commencing December 1, 2007 through the year 2023 in amounts ranging from \$390,000 through \$450,000.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Ukiah Redevelopment Agency Loan Payable. The Agency entered into a loan agreement, dated December 30, 1993, for \$6,935,000 with the Redwood Empire Financing Authority (Authority). The Authority issued certificates of participation, the proceeds of which are used to provide funds to loan the RDA. The Authority then uses the RDA loan payments for the debt service requirements of the Authority. As noted above, the loan was refunded by the Tax Allocation Refunding Bonds, Series 2007 and the balance at June 30, 2007, was \$-0-.

Ukiah Redevelopment Agency REDIP Loan Payable. The Agency entered into a loan agreement, dated May 29, 1996, with the Rural Economic Development Infrastructure Panel (REDIP) to fund the construction of infrastructure within the RDA project area. The initial principal amount of the loan was \$758,557. The loan was paid in full during the current fiscal year and the balance at June 30, 2007 was \$-0-.

Debt service requirements to maturity for bonds payable by the Ukiah Redevelopment Agency are presented on the following schedule.

Governmental Activities		
Year Ended	Tax Allocation Bonds	
June 30,	Principal	Interest
2008	\$345,000	\$269,718
2009	230,000	238,590
2010	235,000	227,873
2011	250,000	214,535
2012	265,000	200,373
2013-2017	1,520,000	793,882
2018-2022	1,870,000	422,040
2023-2024	880,000	40,940
	\$5,595,000	\$2,407,951

4) Other Information

A) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency provides property, liability, and worker's compensation insurance through the City of Ukiah as a member of 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 Agency pays a proportionate share of the City's 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.

The Agency's deductible is \$10,000 for worker's compensation and property losses, and \$25,000 for liability loss, all per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

B) Commitments and Contingencies

The Agency has entered into agreements with several outside entities whereby the Agency must set aside a portion of its tax increment revenues. Under the terms of these agreements, the outside agencies may use their portion of the increment for projects that meet the requirements of Community Redevelopment Law and have been approved by the Agency.

Because expenditure of these amounts is dependent upon future qualified redevelopment projects, and the formal approval of the Agency, no liability has been established for the above amounts. The Agency has, however, restricted a portion of net assets for the above agreements. The following is a schedule of the June 30, 2007, restricted net asset balances:

Low & Moderate Income Housing Fund:	
Mendocino-Lake Community College District	\$653,410
County of Mendocino	322,907
Capital Projects Fund:	
Ukiah Unified School District	2,490,348
Mendocino-Lake Community College District	758,776
Mendocino County Office of Education	484,933

C) Fund Balance Reserves

The Agency has reserved certain portions of its fund balances as follows:

Low & Moderate Income Housing Fund:	
Small project reserve	\$130,870
Allocation committee reserve	92,088
Major project reserve	1,204,583
Capital Projects Fund:	
Reserve for encumbrances	2,026

D) Prior Period Adjustment

The Agency has recorded an adjustment to the beginning net assets to eliminate prior year "unexpended loan proceeds" which had been used to reduce the outstanding loan obligation by the lending agency. The adjustment reduced prior year reported net assets by \$46,951 from \$4,634,819 to \$4,587,868. There was no effect on the prior year reported change in net assets.

REQUIRED SUPPLEMENTAL INFORMATION

**UKIAH REDEVELOPMENT AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General Fund</u>			Variance With Final Budget - Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$403,994	\$403,994	\$443,518	\$39,524
Use of money and property			31,310	31,310
Total Revenues	<u>403,994</u>	<u>403,994</u>	<u>474,828</u>	<u>70,834</u>
<u>EXPENDITURES</u>				
Community Redevelopment:				
Salaries and benefits	235,655	235,655	217,465	18,190
Operating expenses	32,513	32,586	80,984	(48,398)
Contractual services	74,148	85,676	67,535	18,141
Governmental services	61,678	61,678	57,450	4,228
Total Expenditures	<u>403,994</u>	<u>415,595</u>	<u>423,434</u>	<u>(7,839)</u>
Excess (Deficiency) of Revenues Over Over Expenditures	<u>0</u>	<u>(11,601)</u>	<u>51,394</u>	<u>62,995</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balances	0	(11,601)	51,394	62,995
Fund Balances, July 1,	20,448	20,448	20,448	0
Fund Balances, June 30,	<u>\$20,448</u>	<u>\$8,847</u>	<u>\$71,842</u>	<u>\$62,995</u>

**UKIAH REDEVELOPMENT AGENCY
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Low & Moderate Income Housing Fund</u>			Variance With Final Budget - Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$803,986	\$803,986	\$882,599	\$78,613
Use of money and property	35,656	35,656	85,547	49,891
Total Revenues	<u>839,642</u>	<u>839,642</u>	<u>968,146</u>	<u>128,504</u>
<u>EXPENDITURES</u>				
Community Redevelopment:				
Salaries and benefits	92,464	92,464	98,792	(6,328)
Operating expenses	2,084	2,084	2,103	(19)
Contractual services	278,357	278,357	203,082	75,275
Governmental services	14,865	14,865	14,687	178
Total Expenditures	<u>387,770</u>	<u>387,770</u>	<u>318,664</u>	<u>69,106</u>
Excess (Deficiency) of Revenues Over Over Expenditures	<u>451,872</u>	<u>451,872</u>	<u>649,482</u>	<u>197,610</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balances	451,872	451,872	649,482	197,610
Fund Balances, July 1,	1,754,376	1,754,376	1,754,376	0
Fund Balances, June 30,	<u>\$2,206,248</u>	<u>\$2,206,248</u>	<u>\$2,403,858</u>	<u>\$197,610</u>

COMPLIANCE SECTION



DAVIS HAMMON & CO.

Certified Public Accountants

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(1924-1989)

Stephen B. Norman, CPA • PFS
Stephen J. Herr, CPA
Kerry A. Webber, CPA
James L. Duckett, CPA

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

Honorable Mayor and City Council
Members of the City of Ukiah
Acting as the Governing Body for the
Ukiah Redevelopment Agency
Ukiah, California 95482

We have audited the basic financial statements of the Ukiah Redevelopment Agency, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 26, 2007, which was modified due to excluding management's discussion and analysis. 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 Ukiah Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ukiah Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ukiah Redevelopment Agency's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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



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This report is intended solely for the information and use of 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.

December 26, 2007