

**CITY OF UKIAH
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2006

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FINANCIAL SECTION



DAVIS HAMMON & CO.

Certified Public Accountants

Davis W. Hammon, Jr., CPA
(1924-1989)

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

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, 2006, 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, 2006, 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 October 6, 2006, 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 45 through 46, 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.

October 6, 2006

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, 2006. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2006, through descriptions of the financial statements and analysis of the selected information. The final topics discuss some of the City's financial processes and the upcoming budget outlook.

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

1. FINANCIAL HIGHLIGHTS

- The City's total net assets increased 9.4% to \$77,427 from \$70,742 a year ago.
- Governmental net assets ended the year at \$25,794 up 17.1% from \$22,027 in the prior year.
- Total tax revenue, other governmental revenues and business activity revenues exceeded expenses by \$6,684.
- General Fund expenditures and other financing sources and uses exceeded revenues by \$167.
- Total revenues from all sources were \$43,345 up 16.3% from \$37,272 in the prior year.
- The total cost of all activities was \$36,661 up 7.2% from the prior year at \$34,205.

2. USING THIS ANNUAL REPORT

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

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

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

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

Each of these basic financial statements is further described below:

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

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

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

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

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

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

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

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

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

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

We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* through reconciling schedules. The bottom of the Balance Sheet on page 17 explains the changes from accrual based net assets to financial-asset based fund balances. Page 19 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, 2006 and 2005.

Table 1

Summary of Net Assets

For the Fiscal Years Ended June 30, 2006 and 2005

(Full Accrual, in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and other assets	\$25,828	\$22,567	\$116,846	\$37,112	\$142,674	\$59,679
Capital assets	<u>9,312</u>	<u>8,778</u>	<u>60,206</u>	<u>45,505</u>	<u>69,518</u>	<u>54,283</u>
Total assets	<u>35,140</u>	<u>31,345</u>	<u>177,052</u>	<u>82,617</u>	<u>212,192</u>	<u>113,962</u>
Liabilities:						
Long-term debt outstanding	5,424	5,670	118,364	30,688	123,788	36,358
Other liabilities	<u>3,922</u>	<u>3,648</u>	<u>7,055</u>	<u>3,214</u>	<u>10,977</u>	<u>6,862</u>
Total liabilities	<u>9,346</u>	<u>9,318</u>	<u>125,419</u>	<u>33,902</u>	<u>134,765</u>	<u>43,220</u>
Net assets:						
Invested in capital assets net of debt	9,312	2,912	5,984	19,242	15,296	22,154
Restricted	5,850	5,032	1,037	1,130	6,887	6,162
Unrestricted	<u>10,632</u>	<u>14,083</u>	<u>44,612</u>	<u>28,343</u>	<u>55,244</u>	<u>42,426</u>
Total net assets	<u>\$25,794</u>	<u>\$22,027</u>	<u>\$51,633</u>	<u>\$48,715</u>	<u>\$77,427</u>	<u>\$70,742</u>

The City's combined net assets for the fiscal year ended June 30, 2006 were \$77,427. The City accounts for its Utilities, including electric, water and sewer as enterprise funds. The airport, parking district, solid waste disposal site, golf course, conference center and street lighting system are also accounted for as enterprise funds. These enterprise funds are categorized as Business Activities on Table 1.

The City's net assets for governmental activities increased 17.10% from \$22,027 to \$25,794, while business-type activities net assets increased 5.99%, from \$48,715 to \$51,633. 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.

Three transfers are included in the City-wide Statement of Activities. \$908 was transferred to the General Fund from the Electric Utility, in lieu of taxes that would be charged to an outside provider. Beginning with the FY2005-06 this amount is calculated at 6% of electric revenues. Previously, a fixed amount of \$675 was transferred annually. The Airport Fund and the Sewer Fund transferred \$10 and \$156 to the Fixed Asset Replacement Fund. Additionally, within the Governmental Funds, two transfers were made from the General Fund to the Fixed Asset Replacement Fund and the Special Projects Reserve Fund in the amounts of \$250 and \$538 respectively.

Table 2
Statement of Change in Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$3,551	\$2,755	\$23,920	\$20,970	\$27,471	\$23,725
Operating grants and contributions	734	1,670	20	20	754	1,690
Capital grants and contributions	287	250	769	39	1,056	289
Other	-	68			-	68
Taxes	11,179	8,883			11,179	8,883
From other agencies not restricted to specific programs	1,010	1,155			1,010	1,155
Use of money and property	370	593	1,505	869	1,875	1,462
Total revenues	17,131	15,374	26,214	21,898	43,345	37,272
Expenses:						
General government	2,255	2,103			2,255	2,103
Public safety	7,035	6,434			7,035	6,434
Public works	1,892	1,580			1,892	1,580
Community Development	1,065	2,510			1,065	2,510
Community Services (Parks & Rec.)	1,734	1,543			1,734	1,543
Interest on long-term debt	457	472			457	472
Electric			13,299	12,277	13,299	12,277
Water			2,702	2,302	2,702	2,302
Sewer			3,082	2,433	3,082	2,433
Solid Waste Disposal Site (closed)			599	514	599	514
Street Lighting			146	136	146	136
Airport			1,033	815	1,033	815
Parking District			200	170	200	170
Golf Course			755	588	755	588
Conference Center			406	328	406	328
Total expenses	14,438	14,642	22,222	19,563	36,662	34,205
Increase N.A. before Trfrs	2,693	732	3,992	2,335	6,685	3,067
Transfers	1,074	572	(1,074)	(572)	-	-
Increase in Net Assets	3,767	1,304	2,918	1,763	6,685	3,067
Beginning Net Assets	22,027	20,723	48,715	46,952	70,742	67,675
Ending Net Assets	\$25,794	\$22,027	\$51,633	\$48,715	\$77,427	\$70,742

Governmental Activities

Table 3 presents the cost of each of the City's major governmental programs for FY05-06 and FY04-05.

Table 3
Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2006 and 2005
(Full Accrual, in Thousands)

	Total Cost to Provide Services		Cost Change	Percent Change
	2006	2005		
General Government	\$2,255	\$2,103	\$152	7%
Public Safety	7,035	6,434	601	9%
Public Works	1,891	1,580	311	20%
Parks & Recreation	1,735	1,543	192	12%
Community Development	1,065	2,510	(1,445)	-58%
Debt service interest	457	472	(15)	-3%
	\$14,438	\$14,642	\$(204)	-1%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total governmental costs decreased 1%. The increases in Public Safety, Public Works, Parks & Recreation, and General Government were offset by decreases in Community Development and Debt Service. Governmental expenses reflect a wide variety of projects and on-going activities, many of which are supported in part by program fees or other funding sources.

The City's PERS retirement benefits costs increased by \$559 from 2005 to 2006 (to \$1,838 from \$1,279). This increase had a significant impact on total 2006 costs.

General government services include the City Council, City Clerk, City Treasurer, and the City Manager's office as well as the finance, clerical, legal, and personnel areas that support public safety and all the other city services. After an increase of only \$9 from 2003 to 2005, expenses in 2006 increased by \$152. Some expenditures that were deferred from prior years could be deferred no longer.

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 \$105, while PERS grew by \$57. Total Fire personnel costs increased \$74, primarily due to increases in PERS retirement costs.

Public Works primarily consists of streets and public rights of way maintenance. The majority of the increase in expenditures for 2006 resulted from project expenditures of state transportation funds.

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

Community development is primarily grant funded projects and activities of the redevelopment agency. The previous year included expenditures for previously approved CDBG community projects, including the Cultural and Recreation Center, of \$794 and a \$1,000 payment of accumulated revenues to the Ukiah Unified School District. These expenditures did not recur in 2006, therefore the expenditures for Community Development decreased from the 2005 level.

Business Type Activities

The City's net assets for business-type activities in continuing operations generated a \$3,019 increase in net assets or 12% of total revenues (before transfer of \$908 to the general fund), compared with a \$1,907 increase, or 9% in 2005. The Solid Waste Disposal Site has been permanently closed since 2001 and its current position is presented separately so as to not distort the continuing results presented on Table 4.

Table 4
Statement of Operating Income and Expenses - Business Type Funds
 For the Fiscal Years Ended June 30, 2006 and 2005
(Full Accrual, in Thousands)

	Operating Expenses		Operating Revenue		Increase (decrease) From Operations			
	2006	2005	2006	2005	2006		2005	
Electric	\$13,299	\$12,277	15,319	\$14,568	2,020	13%	\$2,291	16%
Water	2,702	2,302	2,315	1,916	(387)	-17%	(386)	(20)%
Sewer	3,082	2,433	4,065	2,595	983	24%	162	6%
Street Lights	147	136	183	182	36	20%	46	25%
Airport	1,033	815	1,731	814	698	40%	(1)	0%
Parking	200	170	162	126	(38)	-23%	(44)	(35)%
Golf Course	755	588	635	540	(120)	-19%	(48)	(9)%
Conference Center	406	328	233	215	(173)	-74%	(113)	(53)%
Total	<u>\$21,624</u>	<u>\$19,049</u>	<u>24,643</u>	<u>\$20,956</u>	<u>3,019</u>	<u>12%</u>	<u>\$1,907</u>	<u>9%</u>
<u>Closed Program</u>								
Solid Waste Disposal Site	\$599	\$514	\$66	\$73	\$(533)		\$(441)	

Electricity purchase costs increased from \$8,008 last year to \$8,763 in FY05-06, while rates charged by the utility were held constant. The Western Area Power Agency ("WAPA") contract ended in January 2005, forcing the Utility to purchase power under less favorable conditions on the open market.

Annual billed water revenue was up 21% from the prior year and expenses also increased as part of a major capital project to increase system peak storage and delivery capacity. The result was a reduction in net assets of \$387.

Parking fines were up \$35 from the prior year, while Capital expenditures of \$30 and other expense increases resulted in a reduction of net assets of \$38.

The Conference Center continues to produce net results below expectations. Management will continue its effort to improve marketing, restructure operations and reduce operating costs.

The Solid Waste Disposal Site was permanently closed in 2001 and federal regulations require the site to be monitored for 30 years with funds set aside for post-closure expenses and contingencies.

4. FINANCIAL ANALYSIS OF THE FUND STATEMENTS

Governmental Funds

The voter approved one-half percent additional sales tax went into effect in October 2005. This new tax accounted for \$1,100 of the incremental growth in governmental revenue. The remaining growth in governmental revenues, on a fund basis from year to year, revenue was 5.8%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues:

Table 5
Revenue Summary: Governmental Funds
 For the Fiscal Years Ended June 30, 2006 and 2005
(Modified Accrual Basis, Stated in Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2006	2005	2006	2005	2006	2005
Revenues:						
Taxes	\$7,592	\$5,914	\$3,587	\$2,969	\$11,179	\$8,883
Licenses and permits	153	168			153	168
Fines, forfeitures & penalties	49	58	25	28	74	86
From other Agencies	1,026	1,180	1,138	1,685	2,164	2,865
Use of money & property	970	806	516	595	1,486	1,401
Charges for current services	697	725			697	725
Other	3	33	288	42	291	75
Total revenues	\$10,490	\$8,884	\$5,554	\$5,319	\$16,044	\$14,203

The State of California has reduced property tax distributions for City General and Redevelopment Funds, instead transferring the funds into the State Educational Revenue Augmentation Fund (“ERAF”) for other uses. \$290 was lost to the City in 2006. After the transfer and before the incremental sales tax revenue, net taxes (including sales, property, occupancy, business licenses and franchise fees) grew at 9.9%.

General Fund Revenue from Other Agencies includes primarily State of California payments for motor Vehicle License Fees (MVLFF), which has changed from a monthly reimbursement from the state to a semi-annual shift of property taxes. The State intends this shift to be revenue neutral. The reduction in revenue from Other Agencies results from the one time proceeds from VLF Gap Bonds (\$230) that was included in the 2005 revenue.

Other Agency Revenue includes many government grants which may vary dramatically from year to year. FY04-05 totaled \$1,685, dropping to \$1,138 this year. This \$547 swing included CDBG funding of \$803 last year, \$15 this year, due to the completion of the Recreation Center construction grant. This decrease was partially offset by \$420 of grant revenue received from the State Water Resource Control Board for underground storage tank cleanup.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues are \$453 over budget, a positive variance of 4.5%. Total taxes were 0.5% above budget, with property taxes up 10% and sales taxes below budget by 3.7%. The regular sales tax revenue exceeded the budget by \$258 and the new local one-half percent sales tax was under budget by \$468.

Total General Fund services finished the year under budget with a total cost savings of 4.4% or \$492. Some savings was the result of continued downward pressure on spending plans. \$270 in unspent capital outlays is expected to carry forward to FY06-07.

Before accounting for transfer activity there was a net positive variance of \$945. An unbudgeted transfer of \$250 was made from the Measure "S" sales tax revenue to the Special Projects Reserve Fund. The final decrease in Fund Balance was \$167, or 4.6%.

6. CASH MANAGEMENT

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

7. CAPITAL ASSETS

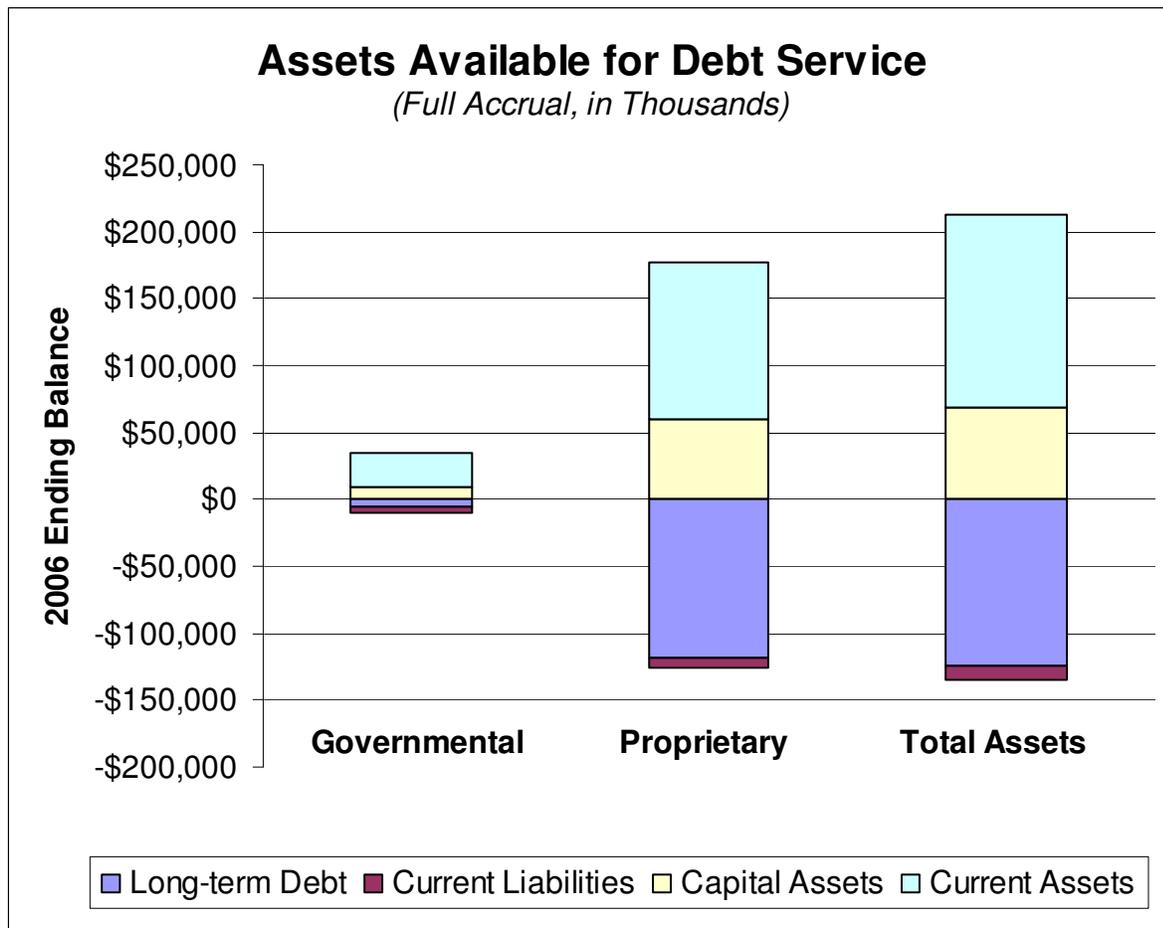
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads. At June 30, 2006, the City had not completed its inventory of infrastructure assets. GASB 34 allows the City an additional year in which to have an accounting of its infrastructure. We plan to use a private asset valuation firm to inventory the City's infrastructure.

At June 30, 2006, net capital assets of the governmental activities totaled \$9,312 and the net capital assets of the business-type activities totaled \$60,206. Business-type assets grew from \$45,505 last year primarily due to major multi-year construction projects underway in the water and sewer utilities. 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 debt is \$3,922 and business-type is \$7,055. The City had total governmental liabilities totaling \$9,346 and business-type liabilities of \$125,419. Included in these totals are \$5,424 of Redevelopment Agency long-term debt and \$118,364 of business-type debt including the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total debt to net assets ratio of 174%, up from 61% in 2005. As the table demonstrates, the City's current asset to liabilities position, in the Governmental Funds is very strong. After incurring new debt for water and sewer system improvements, the total debt of the Proprietary Funds is 107% of the total Proprietary Funds' current assets.



9. NEXT YEAR’S BUDGET AND ECONOMIC FACTORS

The City Manager’s Budget Message introducing the City’s 2007 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:

General Fund revenues for FY 2006-07 are projected to be \$1,380 above the budgeted revenues for FY 2005-06. The expenditures are \$608 below 05/06 amended budget figures. This takes the annual net loss from \$2,514 to \$525 before the Measure S sales tax is added in. Property tax is estimated to be \$100 more than the current fiscal year with the triple flip property tax-in-lieu reaching \$1,100. As a note, an additional source of revenue is the rent received from the City’s former police station on Standley Street. The original agreement through the Redevelopment Agency that provided this building to the County for free has now expired and the City is receiving \$33 this year as rent for this building.

The Measure S Sales Tax revenues for 06/07 are projected to be \$1,756. Expenditures are funded at \$1,168 for a net income of \$588 that is transferred to the General Fund balance.

The City Council requested that they be able to review the cost of various alternatives in the budget this year, including the addition of a traffic patrol officer in the Police Department, and possible infrastructure projects funded under Measure S. Funds were allocated for Council discussion of these alternatives. Approved increases of personnel positions will allocate these funds on an annual basis. Purchases of equipment or special projects will provide for ongoing allocations in the following year as the projects are completed. The Council approved the addition of the Traffic Officer, funding for Public Works projects, and a Project Manager to implement the proposed projects.

GOVERNMENTAL FUNDS

Based on the analysis of our sales tax consultants, the budget contains, from the current one-cent allocation, a projected sales tax increase of \$130 over last year's projected actual sales tax amount. The budget reflects use of a portion of this increase to hire a Building Attendant Lead Worker and a Public Services Worker in the Community Services Department. Additionally a Traffic Officer, a Fire Prevention Captain, and half of a new Public Safety Equipment Mechanic position are funded from the local half cent sales tax, identified as "Measure S" in the budget. The Assistant City Manager position, frozen since fiscal year 2003-04, remains frozen in the 2006-2007 Budget.

Measure "S" Sales Tax: While this revenue source is part of the General Fund, for budget purposes it will be recorded as a separate fund. The sales tax and interest revenue is projected to be \$1,756 for the 06/07 budget year. Expenditures are broken into three categories: Police Department, Fire Department, and Public Works Infrastructure Projects. Budgeted expenditures are \$1,168. The Police section includes funding for four Police Officers, one Police Records Clerk, a Traffic Safety Police Officer and 25% of an Equipment Mechanic. The Fire section includes funding for 25% of an Equipment Mechanic and a Fire Prevention Captain. To this point, the Fire Department was unable to successfully provide many of the business services that are a necessary part of the department's usual duties, including occupancy and safety inspections. Additionally the budget includes replacement of a swift water rescue boat and a transfer of \$150 to the Equipment Fund for future replacement of fire equipment. The Public Works Infrastructure section reserved \$250 for a project manager and infrastructure projects to be identified in the future.

Park Development Fund: There are three projects in the capital account under Park Development. This includes the completion of Observatory Park, Ukiah Sports Complex renovation to upgrade the lighting system, and construction of the Ukiah Skate Park reimbursed through State Park Bond funds and private donations. The expenses exceed the accumulated revenue by \$130. Council approved the transfer of General Fund revenue to cover these costs to ensure that the Observatory Park and Ukiah Sports Complex projects will be completed.

ENTERPRISE FUNDS:

Electric Utility: The Electric Utility expenditures were projected to remain flat for the new year. Subsequent to budget adoption, over \$2,000 for additional cost of the repairs, retrofitting and start-up of the hydro plant have been approved from the Rate Stabilization Fund. One of the major reasons that this fund was put in place over eight years ago was to cover the cost of unanticipated expenditures and increased power costs until a portion of the Northern California Power Authority bonds would reach term and reduce the department's expenditures. In addition, the Utility Director has included a new Electrical Engineering Technician III position and purchases and training in the various electric utility budgets to bring the department up to current performance and training standards.

Sewer Operations: We are anticipating completion of the Wastewater Treatment Plant capacity upgrade and rehabilitation project. Bonds were sold and the construction projects were budgeted in 2005-2006 and will carry forward until completion. Sewer rates were increased, effective December, 2005 and each July thereafter, through 2010 to repay the bonds. The Council plans to include revenue to assist in covering the cost of the "I and P" repair over the next several years to reduce the influx of water during the winter into the sewer system. The Council has also expressed support in funding continued capital projects at the Treatment Plant.

Golf Course: We have seen an immediate increase in merchandise revenue since new management took over operation of the golf course in the 4th quarter of 05/06. Last year's rate changes generated an additional \$30 of revenue, even with an extremely wet spring. The new year's revenue is projected to increase further due to the many changes being implemented through the new golf pro and the management contract. The goal is to eliminate the fund balance deficit in the golf fund and begin saving for capital projects that are needed on the course.

Ukiah Valley Conference Center: The changes approved by the City Council last year are showing dramatic positive change in the annual net income of the Conference Center. Though the past average annual deficit was around \$27 and as high as \$64, the Conference Center staff has reduced the deficit for 05/06 to \$8, before capital expenditures and is budgeting to break even on operational expenses for FY 06/07. Capital costs will continue to be subsidized by the General Fund.

REDEVELOPMENT AGENCY:

In past years, the Redevelopment Agency has cut costs with the elimination of two positions—the Assistant City Manager and the Deputy Redevelopment Director. The Assistant City Manager was the designated Business Liaison for the City and provided individual assistance and support for the business community. Since the position was

eliminated due to budget cuts, there has been very little staff time for such direct contact on a regular basis. Council has expressed strong support for enhanced economic development activity both for retention of our current businesses and to assist interested parties in receiving information about the valley and approved funding an Economic Development Coordinator position that will handle both economic development needs as well as administrative special projects. Half of the funding for two years would come from a grant the City has received and the other half from the Redevelopment Agency.

The Agency is required to reserve 20% of the Redevelopment revenue for the Housing allocation. Two years ago, the Council requested that Housing Fund money be reserved to provide funding for a large capital project rather than portioning out the fund balance to many small projects or programs. The projected fund balance for the RDA's portion of the Housing money at the end of FY 2006/07 is \$943. Additionally, the Redevelopment budget is slowly accumulating funds for projects within the Redevelopment area. Council will be reviewing the Master Plan document to determine what projects are appropriate for funding. Possible new projects for discussion include development of the NCRA depot property, a Master Plan for the downtown corridor, rehabilitation of State and Main Streets, and parking lot improvements.

SUMMARY

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

10. CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director, Mr. Brent Smith (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, 2006**

ASSETS	Governmental Activities	Business-Type Funds	Total
Cash and investments	\$21,594,939	\$39,450,277	\$61,045,216
Receivables (net)	3,970,140	3,094,247	7,064,387
Internal balances	(423,238)	423,238	0
Restricted Assets:			
Temporarily Restricted:			
Cash with fiscal agent	619,050	70,911,689	71,530,739
Interest receivable		315,059	315,059
Contract retention payments held in escrow		407,059	407,059
Prepaid expenses	14,050		14,050
Unexpended loan proceeds	46,951		46,951
Deposits	760	4,600	5,360
Inventory	4,911	675,703	680,614
Unamortized bond issue costs		1,563,432	1,563,432
Capital assets (net of accumulated depreciation)	9,312,036	60,206,359	69,518,395
Total Assets	35,139,599	177,051,663	212,191,262
LIABILITIES			
Accounts payable and other current liabilities	1,568,055	4,295,044	5,863,099
Accrued interest payable	29,048	44,288	73,336
Liabilities payable from restricted assets		1,253,400	1,253,400
Contract retentions payable	10,889	69,741	80,630
Deferred revenues	2,105,150		2,105,150
Customer deposits		2,162	2,162
Noncurrent Liabilities:			
Due within one year	208,545	1,390,701	1,599,246
Due in more than one year	5,423,907	118,363,761	123,787,668
Total Liabilities	9,345,594	125,419,097	134,764,691
NET ASSETS			
Invested in capital assets, net of related debt	9,312,036	5,983,855	15,295,891
Restricted for:			
Public safety	359,042		359,042
Streets and highways	1,707,139		1,707,139
Community development	676,043		676,043
Low and moderate income housing	1,754,376		1,754,376
Debt service	1,353,488	1,037,126	2,390,614
Unrestricted	10,631,881	44,611,585	55,243,466
Total Net Assets	\$25,794,005	\$51,632,566	\$77,426,571

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

**CITY OF UKIAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

<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>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$2,255,304	\$1,392,245		\$184,998	(\$678,061)		(\$678,061)
Public safety	7,034,888	1,004,252	\$125,404	30,000	(5,875,232)		(5,875,232)
Public works	1,891,584	344,892	534,074	72,395	(940,223)		(940,223)
Parks and recreation	1,734,575	439,080	59,753		(1,235,742)		(1,235,742)
Community development	1,065,156	370,941	15,000		(679,215)		(679,215)
Debt service:							
Interest	456,596				(456,596)		(456,596)
Total Governmental Activities	<u>14,438,103</u>	<u>3,551,410</u>	<u>734,231</u>	<u>287,393</u>	<u>(9,865,069)</u>	<u>\$0</u>	<u>(9,865,069)</u>
Business-Type Activities:							
Electric	13,299,458	15,318,680				2,019,222	2,019,222
Water	2,701,788	2,314,645				(387,143)	(387,143)
Sewer	3,082,231	4,065,442				983,211	983,211
Disposal site	599,306	66,341				(532,965)	(532,965)
Street lighting	146,565	182,758				36,193	36,193
Airport	1,033,544	952,103	10,000	769,167		697,726	697,726
Parking	199,725	152,183	9,926			(37,616)	(37,616)
Golf course	754,769	635,172				(119,597)	(119,597)
Conference center	405,734	232,819				(172,915)	(172,915)
Total Business-Type Activities	<u>22,223,120</u>	<u>23,920,143</u>	<u>19,926</u>	<u>769,167</u>	<u>0</u>	<u>2,486,116</u>	<u>2,486,116</u>
Total	<u>\$36,661,223</u>	<u>\$27,471,553</u>	<u>\$754,157</u>	<u>\$1,056,560</u>	<u>(9,865,069)</u>	<u>2,486,116</u>	<u>(7,378,953)</u>
General Revenues:							
Taxes:							
Property					4,202,837		4,202,837
Sales and use					5,557,289		5,557,289
Property transfer					64,694		64,694
Transient occupancy					489,659		489,659
Business license					334,449		334,449
Franchise					530,011		530,011
From other agencies not restricted to specific programs					1,009,912		1,009,912
Use of money and property					369,480	1,504,868	1,874,348
Transfers					1,073,585	(1,073,585)	0
Total General Revenues And Transfers					<u>13,631,916</u>	<u>431,283</u>	<u>14,063,199</u>
Change In Net Assets					3,766,847	2,917,399	6,684,246
Net Assets - beginning					22,027,158	48,715,167	70,742,325
Net Assets - Ending					<u>\$25,794,005</u>	<u>\$51,632,566</u>	<u>\$77,426,571</u>

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

**CITY OF UKIAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$2,322,410	\$17,455,320	\$19,777,730
Cash with fiscal agent - restricted		619,050	619,050
Receivables:			
Accounts (net)	736,108	135,071	871,179
Interest	466,123	1,057	467,180
Property taxes	36,298	233,935	270,233
Grants		265,897	265,897
Loans		2,095,651	2,095,651
Advances due from other funds	1,045,560		1,045,560
Prepaid expenses	14,050		14,050
Unexpended loan proceeds		46,951	46,951
Total Assets	\$4,620,549	\$20,852,932	\$25,473,481
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$242,228	\$223,954	\$466,182
Accrued salaries and benefits	309,954	13,679	323,633
Accrued compensated absences	554,265	30,736	585,001
Contract retentions payable		10,889	10,889
Deferred revenues		2,105,150	2,105,150
Advances due to other funds	62,681	1,468,798	1,531,479
Total Liabilities	1,169,128	3,853,206	5,022,334
Fund Balances:			
Reserved for:			
Encumbrances	309,954	710,786	1,020,740
Petty cash	1,800		1,800
Public Safety	87,104		87,104
Long-term receivable	1,045,560		1,045,560
Low/Moderate housing		1,754,376	1,754,376
Park development		8,000	8,000
Capital outlay - outside agencies		3,374,530	3,374,530
Debt service		1,353,488	1,353,488
Unreserved, reported in:			
General fund	2,007,003		2,007,003
Special revenue funds		2,824,438	2,824,438
Debt service funds		11,012	11,012
Capital projects funds		6,963,096	6,963,096
Total Fund Balances	3,451,421	16,999,726	20,451,147
Total Liabilities And Fund Balances	\$4,620,549	\$20,852,932	
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			9,072,429
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.			1,931,929
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Ukiah Redevelopment Agency REDIP loan payable			(157,452)
Ukiah Redevelopment Agency capital lease payable			(5,475,000)
Accrued interest on long-term debt			(29,048)
Net Assets Of Governmental Activities			\$25,794,005

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, 2006

<u>REVENUES</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes:			
Property	\$615,675	\$3,587,162	\$4,202,837
Sales and use	5,557,289		5,557,289
Property transfer	64,694		64,694
Transient occupancy	489,659		489,659
Business license	334,449		334,449
Franchise	530,011		530,011
Licenses and permits	153,096		153,096
Fines, forfeitures, and penalties	49,623	25,121	74,744
From other agencies	1,026,450	1,138,080	2,164,530
Use of money and property	969,864	516,310	1,486,174
Charges for current services	696,649		696,649
Other	2,969	287,498	290,467
 Total Revenues	 <u>10,490,428</u>	 <u>5,554,171</u>	 <u>16,044,599</u>
 <u>EXPENDITURES</u>			
Current:			
General government	1,552,960	42,113	1,595,073
Public safety	6,387,588	167,219	6,554,807
Street and roads	1,098,319	587,149	1,685,468
Parks and recreation	1,526,875	46,957	1,573,832
Community development	6,903	1,016,568	1,023,471
Debt service:			
Principal		233,489	233,489
Interest	2,052	455,344	457,396
Capital outlay	202,836	779,384	982,220
 Total Expenditures	 <u>10,777,533</u>	 <u>3,328,223</u>	 <u>14,105,756</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(287,105)</u>	 <u>2,225,948</u>	 <u>1,938,843</u>
 <u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	907,585	1,681,468	2,589,053
Transfers out	(787,968)	(662,500)	(1,450,468)
 Total Other Financing Sources (Uses)	 <u>119,617</u>	 <u>1,018,968</u>	 <u>1,138,585</u>
 Net Change In Fund Balances	 (167,488)	 3,244,916	 3,077,428
Fund Balances, July 1,	3,618,909	13,754,810	17,373,719
Fund Balances, June 30,	<u><u>\$3,451,421</u></u>	<u><u>\$16,999,726</u></u>	<u><u>\$20,451,147</u></u>

continued

**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, 2006**

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

Net change in fund balances - total governmental funds	\$3,077,428
<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	982,220
Depreciation	(373,512)
<p>The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.</p>	
	(66,110)
<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>	
<p>Principal Repayments/Adjustments:</p>	
Ukiah Redevelopment Agency loan payments	233,489
<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	800
<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>	
	(87,468)
 Change In Net Assets Of Governmental Activities	 <u><u>\$3,766,847</u></u>

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

CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

<u>ASSETS</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Current Assets:							
Cash	\$23,485,055	\$340,854	\$6,881,397	\$7,824,699	\$918,272	\$39,450,277	\$1,817,209
Receivables:							
Accounts (net)	1,182,521	179,585	232,785		87,981	1,682,872	
Unbilled	827,513	156,920	255,398			1,239,831	
Grants					170,775	170,775	
Property taxes					769	769	
Deposits		3,800			800	4,600	760
Inventory	612,868	62,835				675,703	4,911
Total Current Assets	<u>26,107,957</u>	<u>743,994</u>	<u>7,369,580</u>	<u>7,824,699</u>	<u>1,178,597</u>	<u>43,224,827</u>	<u>1,822,880</u>
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,086,819	4,038,028	64,780,133		6,709	70,911,689	
Accrued interest	7,547	15,060	292,452			315,059	
Contract retentions held in escrow		407,059				407,059	
Other Noncurrent Assets:							
Advances due from other funds	1,126,147					1,126,147	62,681
Unamortized capital debt issue costs	173,152	480,495	909,785			1,563,432	
Capital Assets:							
Land			114,766	699,654	1,829,928	2,644,348	
Land improvements	35,751	111,263	120,290		740,788	1,008,092	
Infrastructure	4,863					4,863	
Buildings and improvements	25,000,000	4,487,652	10,179,727		2,943,142	42,610,521	327,113
Licensed vehicles	806,216	301,025	458,356	101,296	191,707	1,858,600	26,574
Machinery and equipment	1,605,028	1,914,339	1,061,212	404,039	238,753	5,223,371	165,272
Less: Accumulated depreciation	(11,800,191)	(2,082,512)	(4,101,273)	(240,599)	(1,896,347)	(20,120,922)	(279,352)
Construction in progress	428,776	13,053,886	12,525,735		969,089	26,977,486	
Total Noncurrent Assets	<u>19,474,108</u>	<u>22,726,295</u>	<u>86,341,183</u>	<u>964,390</u>	<u>5,023,769</u>	<u>134,529,745</u>	<u>302,288</u>
Total Assets	<u>45,582,065</u>	<u>23,470,289</u>	<u>93,710,763</u>	<u>8,789,089</u>	<u>6,202,366</u>	<u>177,754,572</u>	<u>2,125,168</u>

continued

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

**CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

LIABILITIES	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Current Liabilities:							
Accounts payable	430,802	372,005	2,553,216	4,370	586,167	3,946,560	99,723
Accrued salaries and benefits	50,992	33,653	34,172	3,508	29,805	152,130	36,467
Accrued compensated absences	60,892	49,742	44,561	3,526	37,633	196,354	57,049
Accrued interest payable		19,804	22,711	1,773		44,288	
Customer deposits					2,162	2,162	
Contract retentions payable					69,741	69,741	
Advances from other funds					40,000	40,000	
Current portion of long-term debt		103,722	316,979			420,701	
Total Current Liabilities	542,686	578,926	2,971,639	13,177	765,508	4,871,936	193,239
Current Liabilities Payable From Restricted Assets:							
Contract retentions payable		407,059				407,059	
Revenue bonds payable - current portion	970,000					970,000	
Accrued interest payable	87,240	206,041	553,060			846,341	
Total Current Liabilities Payable From Restricted Assets	1,057,240	613,100	553,060	0	0	2,223,400	0
Noncurrent Liabilities:							
Advances from other funds					662,909	662,909	
Installment obligation (net of unamortized discount)		14,474,297	75,127,184			89,601,481	
State loans payable		2,095,261	3,316,831			5,412,092	
Revenue bonds payable (net of unamortized discount)	15,518,324					15,518,324	
Estimated landfill closure costs				7,831,864		7,831,864	
Total Noncurrent Liabilities	15,518,324	16,569,558	78,444,015	7,831,864	662,909	119,026,670	0
Total Liabilities	17,118,250	17,761,584	81,968,714	7,845,041	1,428,417	126,122,006	193,239
NET ASSETS							
Invested in capital assets, net of related debt		705,314		964,390	4,314,151	5,983,855	239,607
Restricted for debt service	1,037,126					1,037,126	
Unrestricted	27,426,689	5,003,391	11,742,049	(20,342)	459,798	44,611,585	1,692,322
Total Net Assets	\$28,463,815	\$5,708,705	\$11,742,049	\$944,048	\$4,773,949	\$51,632,566	\$1,931,929

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, 2006**

<u>OPERATING REVENUES</u>	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Charges for current services	\$15,266,607	\$2,314,645	\$3,582,953	\$60,000	\$1,924,214	\$23,148,419	\$1,825,087
Licenses and permits					76,782	76,782	
Fines, forfeitures and penalties					75,401	75,401	
Other revenues	52,073		482,489	6,341	78,638	619,541	808,836
Total Operating Revenues	<u>15,318,680</u>	<u>2,314,645</u>	<u>4,065,442</u>	<u>66,341</u>	<u>2,155,035</u>	<u>23,920,143</u>	<u>2,633,923</u>
<u>OPERATING EXPENSES</u>							
Purchased power	8,762,616					8,762,616	
Operations	1,515,600	610,054	956,726	296,440	1,305,365	4,684,185	1,278,845
Maintenance		527,446	366,453	211,295	136,161	1,241,355	34,008
Fuels and lubricants					594,133	594,133	4,491
Utilities		374,470	188,827	4,432	246,437	814,166	15,631
General and administration	1,320,072	718,222	601,952	64,501	90,899	2,795,646	207,663
Insurance premiums and deductibles							1,121,624
Depreciation	554,289	165,827	289,422	22,638	85,918	1,118,094	8,398
Total Operating Expenses	<u>12,152,577</u>	<u>2,396,019</u>	<u>2,403,380</u>	<u>599,306</u>	<u>2,458,913</u>	<u>20,010,195</u>	<u>2,670,660</u>
Operating Income	<u>3,166,103</u>	<u>(81,374)</u>	<u>1,662,062</u>	<u>(532,965)</u>	<u>(303,878)</u>	<u>3,909,948</u>	<u>(36,737)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>							
Taxes					9,926	9,926	
From other agencies					779,167	779,167	
Interest income	621,931	169,889	518,158	165,991	28,899	1,504,868	14,269
Interest expense	(1,139,827)	(305,769)	(678,851)		(81,424)	(2,205,871)	
Trustee fees	(7,054)					(7,054)	
Total Nonoperating Revenues (Expenses)	<u>(524,950)</u>	<u>(135,880)</u>	<u>(160,693)</u>	<u>165,991</u>	<u>736,568</u>	<u>81,036</u>	<u>14,269</u>
Income Before Contributions And Transfers	2,641,153	(217,254)	1,501,369	(366,974)	432,690	3,990,984	(22,468)
Transfers out	(907,585)		(156,000)		(10,000)	(1,073,585)	(65,000)
Change In Net Assets	1,733,568	(217,254)	1,345,369	(366,974)	422,690	2,917,399	(87,468)
Total Net Assets - beginning	26,730,247	5,925,959	10,396,680	1,311,022	4,351,259	48,715,167	2,019,397
Total Net Assets - ending	<u>\$28,463,815</u>	<u>\$5,708,705</u>	<u>\$11,742,049</u>	<u>\$944,048</u>	<u>\$4,773,949</u>	<u>\$51,632,566</u>	<u>\$1,931,929</u>

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

**CITY OF UKIAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:							
Receipts from customers and users	\$15,093,383	\$2,234,596	\$3,831,663	\$66,341	\$2,189,875	\$23,415,858	\$195,719
Receipts from interfund services provided							2,438,204
Payments to suppliers	(9,708,061)	(1,497,127)	(1,247,920)	(265,899)	(1,504,297)	(14,223,304)	(1,843,733)
Payments to employees	(998,268)	(589,705)	(603,509)	(69,088)	(584,694)	(2,845,264)	(760,844)
Payments for interfund services provided	(480,073)	(124,173)	(248,070)	(31,743)	(188,438)	(1,072,497)	
Net Cash Provided (Used) By Operating Activities	<u>3,906,981</u>	<u>23,591</u>	<u>1,732,164</u>	<u>(300,389)</u>	<u>(87,554)</u>	<u>5,274,793</u>	<u>29,346</u>
Cash Flows From Noncapital Financing Activities:							
Property taxes and subventions					9,875	9,875	
From other agencies					20,000	20,000	
Payments from advances to other funds					(2,022)	(2,022)	10,500
Advances from other funds					702,909	702,909	
Transfers out	(907,585)		(156,000)		(10,000)	(1,073,585)	(65,000)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(907,585)</u>	<u>0</u>	<u>(156,000)</u>	<u>0</u>	<u>720,762</u>	<u>(342,823)</u>	<u>(54,500)</u>
Cash Flows From Capital and Related Financing Activities:							
Acquisition and construction of capital assets	(826,395)	(7,019,649)	(5,358,912)		(319,931)	(13,524,887)	
Capital grants					638,590	638,590	
Proceeds from capital debt		14,070,662	74,207,931			88,278,593	
Principal paid on capital debt	(910,000)	(100,080)	(307,747)		(830,000)	(2,147,827)	
Interest paid on capital debt	(1,101,475)	(372,821)	(118,247)		(59,230)	(1,651,773)	
Trustee fees	(5,347)					(5,347)	
Advances from other funds	3,014,637	(3,014,637)				0	
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>171,420</u>	<u>3,563,475</u>	<u>68,423,025</u>	<u>0</u>	<u>(570,571)</u>	<u>71,587,349</u>	<u>0</u>
Cash Flows From Investing Activities:							
Interest on investments	618,545	154,829	754,983	165,991	29,053	1,723,401	14,269
Net Cash Provided (Used) By Investing Activities	<u>618,545</u>	<u>154,829</u>	<u>754,983</u>	<u>165,991</u>	<u>29,053</u>	<u>1,723,401</u>	<u>14,269</u>
Net Increase (Decrease) In Cash	3,789,361	3,741,895	70,754,172	(134,398)	91,690	78,242,720	(10,885)
Cash Balance - beginning	21,782,513	636,987	907,358	7,959,097	833,291	32,119,246	1,828,094
Cash Balance - ending	<u><u>\$25,571,874</u></u>	<u><u>\$4,378,882</u></u>	<u><u>\$71,661,530</u></u>	<u><u>\$7,824,699</u></u>	<u><u>\$924,981</u></u>	<u><u>\$110,361,966</u></u>	<u><u>\$1,817,209</u></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, 2006**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Disposal Site</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Reconciliation of Cash Balance:							
Cash	\$23,485,055	\$340,854	\$6,881,397	\$7,824,699	\$918,272	\$39,450,277	\$1,817,209
Restricted cash with fiscal agent	2,086,819	4,038,028	64,780,133		6,709	70,911,689	
Cash Balance - ending	<u>\$25,571,874</u>	<u>\$4,378,882</u>	<u>\$71,661,530</u>	<u>\$7,824,699</u>	<u>\$924,981</u>	<u>\$110,361,966</u>	<u>\$1,817,209</u>
 Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:							
Operating income (loss)	\$3,166,103	(\$81,374)	\$1,662,062	(\$532,965)	(\$303,878)	\$3,909,948	(\$36,737)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:							
Depreciation	554,289	165,827	289,422	22,638	85,918	1,118,094	8,398
Decrease (Increase) in receivables	(225,297)	(80,049)	(233,779)		34,840	(504,285)	
Decrease (Increase) in inventory	11,013	1,430				12,443	944
Decrease (Increase) in payables	400,873	12,484	14,459	209,938	95,566	733,320	56,741
Amortize loan fees		5,273				5,273	
Net Cash Provided (Used) By Operating Activities	<u>\$3,906,981</u>	<u>\$23,591</u>	<u>\$1,732,164</u>	<u>(\$300,389)</u>	<u>(\$87,554)</u>	<u>\$5,274,793</u>	<u>\$29,346</u>
 Non-Cash Transactions:							
Amortize capital debt issue costs	\$14,430	\$16,010	\$10,222		\$8,781	\$49,443	
Amortize capital debt discount (premium)	28,473	(3,233)	(755)		18,482	42,967	
Accrue additional landfill closure/postclosure costs				\$189,413		189,413	

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

**CITY OF UKIAH
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

<u>ASSETS</u>	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
Assets:		
Cash and investments	\$2,338,352	\$4,346,622
Receivables:		
Accounts (net)	23,920	18,949
 Total Assets	<u>2,362,272</u>	<u>\$4,365,571</u>
 <u>LIABILITIES</u>		
Liabilities:		
Accounts payable	15,997	\$187,740
Accrued salaries and benefits	174,326	2,407
Utility deposits	297,767	
Due to Ukiah Valley Sanitation District		3,584,725
Due to Solid Wastes Systems		444,184
Due to M.E.S.A.		8,003
Due to Russian River JPA		69,061
Due to Mixing Zone JPA		69,451
 Total Liabilities	<u>488,090</u>	<u>\$4,365,571</u>
 <u>NET ASSETS</u>		
Held in trust for other purposes	<u>\$1,874,182</u>	

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, 2006

	Private Purpose Trust
<u>Additions</u>	
Taxes	\$15,388
Other	922,802
Total Additions	938,190
<u>Deductions</u>	
Current:	
Community development	31,739
Total Deductions	31,739
Change in net assets	906,451
Net Assets - beginning	967,731
Net Assets - ending	\$1,874,182

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 to 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.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

The City reports the following major governmental fund:

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 City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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 \$1,239,831 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2006. 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, 2006.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$981,616, including \$582,380 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, 2005 and were levied on July 1, 2005. Taxes are due in two equal installments on November 1 and February 1. The City relies on the competency of the County of Mendocino Assessor's office to properly assess, collect and distribute property taxes.

3) Inventories And Prepaid Items

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

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

4) Restricted Assets

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

Contract Retentions Held In Escrow – Under the terms of an agreement the City entered into for the construction of improvements to its water treatment plant, the City made deposits to an outside escrow account in amounts equivalent to the contract retention payments that would normally be withheld during the construction period. Amounts held in escrow are intended to be released to the City's construction contractor once the project has been accepted as complete by the City. The \$407,059 balance of the escrow account has been reported as a restricted asset of the City at June 30, 2006.

5) Capital Assets

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

As of the balance sheet date, information was not available concerning the cost of infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and, therefore, pre-existing infrastructure assets are not included in the accompanying financial statements. As permitted by GASB Statement No. 34 (GASB-34), the City will begin reporting pre-existing infrastructure assets as data is accumulated during the transition period provided by GASB-34. However, as required by GASB-34 the City has begun prospective reporting of infrastructure assets acquired or constructed during the current fiscal period. During the current fiscal period, infrastructure projects that were incomplete are reported as "construction in progress."

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, 2006, \$279,636 of interest was capitalized in the Water Fund's water treatment plant upgrade project. In the Sewer Fund, interest earned on invested proceeds exceeded interest expense by \$529,278 therefore the wastewater treatment plant upgrade project cost was reduced by the excess amount.

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 City are depreciated using the straight-line method using the following useful lives:

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

6) Compensated Absences

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

7) Long-Term Obligations

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

8) Fund Equity

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

2 Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted all governmental funds except the certain minor Special Revenue Funds including: National Science Foundation, Asset Seizure and Asset Seizure (Drug/Alcohol), H&S Education, Federal Assets Seizure, Storm Drain, Federal Emergency Shelter Grant, EDBG 94-333 Revolving Loan, and Off System Road. 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 \$68,716,696 were necessary primarily due to authorization of major construction projects.

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

B) Excess Of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following special revenue funds for which budgets were adopted:

Expenditures Over Appropriations:	
Supplemental Law Enforcement	\$12,418
Community Development Block Grant	17,546

These over-expenditures are expected to be funded by additional grant revenues or by available fund balance.

C) Deficit Fund Equity

The following Special Revenue Funds had deficit fund balances as of June 30, 2006. 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:	
Park Development Fund	\$155,976
NEH1 Museum Grant Fund	4,279
Local Law Enforcement Block Grant	13,200
STIP Augmentation Fund	2,315

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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	\$61,045,216
Restricted cash with fiscal agent	71,530,739
Statement of Fiduciary Net Assets:	
Cash and investments	<u>6,684,974</u>
Total Cash and Investments	<u><u>\$139,260,929</u></u>

Cash and investments consist of the following:

Cash on hand	\$1,650
Deposits with financial institutions	9,038,760
Investments	<u>130,220,519</u>
Total Cash and Investments	<u><u>\$139,260,929</u></u>

Authorized Investments – City Investment Policy

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

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

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:

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for City's operations. The City's target maximum average maturity to control overall exposure to interest rate risk is 2.5 years

As of June 30, 2006, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$6,667,508	1.71
U.S Treasury Bonds and Notes	10,237,230	1.69
U.S. Government Agency Bonds and Notes	38,112,084	1.78
U.S. Government Mortgage Passthroughs	640,982	1.92
Mortgage-Backed and Asset-Backed Securities	2,047	15.50
Money Market Funds	85,714	0.00
State Investment Pool (LAIF)	2,944,213	0.42
Held By Bond Trustee:		
Money Market Funds	11,126,953	0.00
FSA Capital Management Services LLC	60,403,788	2.75
 Total Fair Value	 <u>130,220,519</u>	
Portfolio Weighted Average Maturity		<u>2.04</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, 2006, 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-	A+/A-1+	
Corporate Bonds and Notes	\$6,667,508		\$2,200,223	\$3,488,275	\$979,010	
U.S Treasury Bonds and Notes	10,237,230	\$10,237,230				
U.S. Government Agency Bonds and Notes	38,112,084		35,720,496		2,391,588	
U.S. Government Mortgage Passthroughs	640,982		640,982			
Mortgage-Backed and Asset-Backed Securities	2,047		2,047			
Money Market Funds	85,714		85,714			

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

State Investment Pool	2,944,213				\$2,944,213
Held By Bond Trustee:					
Money Market Funds	11,126,953	11,126,953			
FSA Capital Management Services LLC	60,403,788				60,403,788
	\$130,220,519	\$10,237,230	\$49,776,415	\$3,488,275	\$3,370,598
Total Fair Value	\$130,220,519	\$10,237,230	\$49,776,415	\$3,488,275	\$3,370,598

Concentrations of Credit Risk

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

Investment Type	Issuer	Fair Value
U.S. Federal Agency Security	FHLMC	\$16,360,151
U.S. Federal Agency Security	FHLB	12,765,926
U.S. Federal Agency Security	FNMA	8,986,008

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 \$9,511,349, of which \$300,000 was covered by federal depository insurance. The \$9,211,349 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2006, City investments in the following investment types were held by the same institution that was used by the City to buy the securities:

Money Market	\$85,714
U.S. Treasury	10,237,230
Federal Government Agency	38,112,084
U.S. Government REMICS/CMO's	2,047
U.S. Government Mortgage Pass-Throughs	640,982
Corporate Bonds	6,667,508

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, 2006

B) Capital Assets

Construction And Other Commitments

The City has active construction projects as of June 30, 2006. The projects include expansion and upgrade of the water treatment plant and sewage treatment plant. The City has also entered into an agreement to develop new citywide financial software. At year-end the City's commitments with contractors are as follows:

	Expended To-Date	Remaining Commitment
Water treatment plant expansion	\$13,053,886	\$477,892
Sewage treatment plant expansion	12,525,735	55,317,849

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Government Activities:				
Nondepreciable Capital Assets:				
Land	\$1,675,023		\$43,950	\$1,631,073
Construction in progress	321,170	\$101,871		423,041
Total Nondepreciable Capital Assets	1,996,193	101,871	43,950	2,054,114
Depreciable Capital Assets:				
Land improvements	861,675			861,675
Buildings	5,947,976			5,947,976
Licensed vehicles	2,035,580	525,462	90,955	2,470,087
Machinery and equipment	1,972,087	354,889		2,326,976
Infrastructure	1,164,213			1,164,213
Total Depreciable Capital Assets	11,981,531	880,351	90,955	12,770,927
Less: Accumulated Depreciation:				
Land improvements	(674,475)	(29,754)		(704,229)
Buildings	(1,769,999)	(118,853)		(1,888,852)
Licensed vehicles	(1,545,144)	(112,516)	(68,792)	(1,588,868)
Machinery and equipment	(1,179,528)	(102,876)		(1,282,404)
Infrastructure	(30,741)	(17,911)		(48,652)
Total Accumulated Depreciation	(5,199,887)	(381,910)	(68,792)	(5,513,005)
Depreciable Capital Assets, net	6,781,644	498,441	22,163	7,257,922
Governmental Activities Capital Assets, net	\$8,777,837	\$600,312	\$66,113	\$9,312,036
Business-Type Activities:				
Nondepreciable Capital Assets:				
Land	\$2,644,348			\$2,644,348
Construction in progress	11,788,607	\$15,188,879		26,977,486
Total Nondepreciable Capital Assets	14,432,955	15,188,879	\$0	29,621,834
Depreciable Capital Assets:				
Land improvements	1,012,955			1,012,955
Buildings and improvements	42,610,521			42,610,521
Licensed vehicles	1,705,744	166,817	13,961	1,858,600
Machinery and equipment	5,085,589	464,205	326,424	5,223,370
Total Depreciable Capital Assets	50,414,809	631,022	340,385	50,705,446
Less: Accumulated Depreciation:				
Land improvements	(876,612)	(8,885)		(885,497)
Buildings and improvements	(14,659,697)	(850,628)		(15,510,325)
Licensed vehicles	(1,229,786)	(91,904)	(13,961)	(1,307,729)
Machinery and equipment	(2,577,120)	(166,674)	(326,424)	(2,417,370)
Total Accumulated Depreciation	(19,343,215)	(1,118,091)	(340,385)	(20,120,921)
Depreciable Capital Assets, net	31,071,594	(487,069)	0	30,584,525
Business-Type Activities Capital Assets, net	\$45,504,549	\$14,701,810	\$0	\$60,206,359

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General government	\$104,374
Public safety	103,957
Streets	89,556
Parks	68,395
Community development	<u>15,628</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$381,910</u></u>
Business-Type Activities:	
Electric	\$554,289
Water	165,827
Sewer	289,422
Disposal site	22,637
Airport	17,348
Parking	1,195
Golf course	19,024
Conference center	<u>48,349</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$1,118,091</u></u>

C) Interfund Receivables, Payables And Transfers

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2006 is as follows:

Advances Due To(From) Other Funds	Due To	Due From
General Fund	\$1,045,560	\$62,681
Electric Fund	1,126,147	
Nonmajor governmental funds		1,468,798
Nonmajor business-type funds		702,909
Internal service fund	62,681	
Total Due To(From) Other Funds	<u>\$2,234,388</u>	<u>\$2,234,388</u>

Long-term advances to the Ukiah Redevelopment Agency (nonmajor governmental fund) from the General and Electric funds are due upon demand, but are unlikely to be repaid within one year. The Liability Insurance Fund made a long-term advance to the General Fund that will be repaid over the next nine (9) years. The General Fund made an advance to the Golf Fund to pay-off a capital lease. The advance is will be repaid in annual installments ranging from \$40,000 to \$85,000 (plus applicable interest) through the year 2018, and \$40,000 has been classified as a current liability.

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$907,585	\$787,968
Electric Fund		907,585
Sewer Fund		156,000
Nonmajor governmental funds	1,681,468	662,500
Nonmajor enterprise funds		10,000
Internal service fund		65,000
Total Transfers In(Out)	<u>\$2,589,053</u>	<u>\$2,589,053</u>

**CITY OF UKIAH
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The \$907,585 transfer to the General Fund represents payments in-lieu of taxes by the Electric Department.

The General Fund transferred \$537,968 representing a portion of the 0.5% sales tax receipts to the Special Projects Fund - a nonmajor Capital Projects fund, for the purchase of equipment for the Fire Department.

In addition, the General Fund (\$250,000) and the Sewer Fund (\$156,000) made transfers to the Fixed Asset Fund - a nonmajor Capital Projects fund - for future equipment purchases. Similarly, the Special Projects Fund (\$662,500), the Airport (\$10,000) – a nonmajor Enterprise Fund, and the Enterprise Billing Fund (\$65,000) – nonmajor Internal Service fund, also transferred funds to the Fixed Asset Fund for future capital outlay.

D) Capital Leases

At June 30, 2005, the City was obligated for one (1) agreement that financed the acquisition of a golf course that has been reported as a capital lease. During the year ended June 30, 2006 the lease was paid in full from a long-term advance to the Golf Fund from the General Fund.

E) 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, net of unamortized discount of \$341,676, at June 30, 2006 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$16,488,324

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

Water Treatment Plant – Dated September 1, 2005 the original amount of the obligation was \$14,355,000 and is secured with a pledge of net revenues from the City's water system. The obligation principal is payable in annual installments beginning September 1, 2007 ranging from \$280,000 to \$845,000 through September 1, 2035. Interest payments commenced March 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2006 the installment obligation liability outstanding including the unamortized premium of \$119,297 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$14,474,297

Wastewater Treatment Plant – Dated March 1, 2006 the original amount of the obligation was \$75,060,000 and is secured with a pledge of net revenues from the City's wastewater system. The obligation principal is payable in annual installments beginning March 1, 2009 ranging from \$400,000 to \$4,690,000 through March 1, 2036. Interest payments commence September 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2006 the installment obligation liability outstanding including the unamortized premium of \$67,184 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$75,127,184

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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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Water Treatment Plant – The maximum loan amount is \$3,599,009 and is payable over 30 years. At June 30, 2006, the balance of the loan was \$2,198,983. Principal and interest are payable semi-annually on April 1, and October 1, with the interest rate being 3.6024%. Loan payments will be made exclusively from revenues received from assessments and user charges of the treatment plant.

Wastewater Treatment Plant – The maximum loan amount is \$6,592,944, payable over 20 years. At June 30, 2006, the balance of the loan was \$3,633,810. Principal and interest are payable annually with the interest rate being 3.0%.

Ukiah Redevelopment Agency Loan Payable. The Ukiah Redevelopment Agency (RDA) has 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. The loan balance at June 30, 2006, was \$5,475,000. The terms of loan require semi-annual interest payments in December and June at annual rates ranging from 4.00% to 6.50%. Principal payments are due annually in December through the year 2023. Loan payments by the RDA will be made exclusively from revenues received from property tax increments.

Ukiah Redevelopment Agency REDIP Loan Payable. The Ukiah Redevelopment Agency (RDA) has 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 and the balance at June 30, 2006 was \$157,452. Principal and interest payments of \$43,662 are payable semi-annually on January 1, and July 1, through July 1, 2008. The loan carries an interest rate of 6.5% per annum.

Landfill Closure And Postclosure Costs. As more fully discussed in Note 5(D), long-term liabilities include \$7,831,864 in accrued landfill closure and postclosure costs. These liabilities are not included in the following discussion of debt service requirements and changes in long-term liabilities.

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Government Activities:					
Loans payable	\$5,865,941		\$233,489	\$5,632,452	\$208,545
Governmental Activities Long-Term Liabilities	<u>\$5,865,941</u>	<u>\$0</u>	<u>\$233,489</u>	<u>\$5,632,452</u>	<u>\$208,545</u>
Business-Type Activities:					
Electric revenue bonds payable	\$17,740,000		\$910,000	\$16,830,000	\$970,000
Deferred amounts:					
Issuance discounts	(370,149)		(28,473)	(341,676)	
Net revenue bonds payable	<u>17,369,851</u>	<u>\$0</u>	<u>881,527</u>	<u>16,488,324</u>	<u>970,000</u>
Installment obligations payable:					
Water treatment plant		14,355,000		14,355,000	0
Wastewater treatment plant		75,060,000		75,060,000	0
Deferred amounts:					
Issuance premiums		190,469	3,988	186,481	
Net installment obligations payable	<u>\$0</u>	<u>89,605,469</u>	<u>3,988</u>	<u>89,601,481</u>	<u>0</u>
State loans:					
Water Resources - Water Treatment	2,299,063		100,080	2,198,983	103,722
Water Resources - Sewer Treatment	3,941,557		307,747	3,633,810	316,979
Total State loans	<u>6,240,620</u>	<u>0</u>	<u>407,827</u>	<u>5,832,793</u>	<u>420,701</u>
Capital leases:					
Golf course	830,000		830,000	0	
Deferred amounts:					
Issuance discounts	(18,482)		(18,482)	0	
Net capital leases	<u>811,518</u>	<u>0</u>	<u>811,518</u>	<u>0</u>	<u>0</u>
Landfill closure and post-closure	<u>7,624,181</u>	<u>207,683</u>	<u>0</u>	<u>7,831,864</u>	<u>0</u>
Business-Type Activities Long-Term Liabilities	<u>\$32,046,170</u>	<u>\$89,813,152</u>	<u>\$2,104,860</u>	<u>\$119,754,462</u>	<u>\$1,390,701</u>

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

Governmental Activities		
Year Ended	RDA Loans	
June 30,	Principal	Interest
2007	\$208,545	\$348,597
2008	265,889	339,173
2009	233,018	322,383
2010	205,000	308,640
2011	220,000	295,040
2012-2016	1,325,000	1,238,560
2017-2021	1,795,000	743,200
2022-2026	1,380,000	136,320
	<u>\$5,632,452</u>	<u>\$3,731,913</u>

Business-Type Activities						
Year Ended	Revenue Bonds		State Loans		Installment Loans	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$970,000	\$1,046,875	\$420,701	\$187,305	\$0	\$2,286,573
2008	1,030,000	988,675	433,981	174,025	280,000	3,949,422
2009	1,095,000	926,875	447,683	160,323	690,000	3,938,022
2010	1,165,000	858,438	461,820	146,186	1,500,000	3,910,222
2011	1,240,000	785,625	476,408	131,599	1,910,000	3,850,022
2012-2016	7,555,000	2,656,875	2,617,634	422,396	10,630,000	18,045,208
2017-2021	3,775,000	357,812	797,013	113,050	12,960,000	15,718,475
2022-2026			177,553	4,460	16,055,000	12,698,802
2027-2031					20,095,000	8,723,032
2032-2036					25,295,000	3,593,213
	<u>\$16,830,000</u>	<u>\$7,621,175</u>	<u>\$5,832,793</u>	<u>\$1,339,344</u>	<u>\$89,415,000</u>	<u>\$76,712,991</u>

F) 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 \$25,000,000 (liability),

CITY OF UKIAH
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\$200,000,000 (property), \$20,000,000 (boiler and machinery), \$1,500,000 (auto) and \$3,000,000 (workers' compensation) – all per occurrence. Losses exceeding these limits are the responsibility the City.

The City's deductibles are \$10,000 for worker's compensation, property and auto losses, and fidelity; \$25,000 for liability losses; \$5,000 for boiler and machinery losses; and \$25,000 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, 2006, was \$1,404,916 which management believes is adequate to finance the City's share of any losses.

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

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

B) Related Organizations

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

Northern California Power Agency (NCPA) - Membership consists of eleven municipal electric utilities, a port authority, an irrigation district, a public utility district, and four 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, 2006, the City paid \$8,747,616 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 July 31, 2005, the City's balance held in the reserve was \$4,054,755. 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

CITY OF UKIAH
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JUNE 30, 2006

premiums paid to the Authority were \$974,684. During the year, the City received distribution from REMIF totaling \$195,719 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.

Mendocino Emergency Services Authority (MESA) - This Authority consists of three Mendocino County cities and the County of Mendocino. The Agency was created for the purpose of coordinating disaster and other emergency preparedness planning and recovery programs. A Commission comprised of one member from member entity governs the Authority. As of June 30, 2006 the governing board of MESA as voted to dissolve the organization and have its services provided by the County of Mendocino.

C) Contingencies

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

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

D) Landfill Closure And Postclosure Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$7,831,864 (including \$772,823 for corrective action liability) as of June 30, 2006, 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, 2006, 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, 2006, held \$7,068,769 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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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.

In 2001, the City exchanged a parcel of land to the County of Mendocino for \$1 and five (5) years of animal shelter services commencing in fiscal year 2000/01 through 2005/06. Animal shelter services are to include "acceptance, care, processing and disposition of all Ukiah animals, whether alive or dead."

F) Employee Retirement Systems

Plan Description:

The City has three (3) defined benefit pension plans; the Miscellaneous Plan of the City of Ukiah (Miscellaneous Plan), the Safety Police Plan of the City Of Ukiah (Police Plan), and the Safety Fire Plan of the City if Ukiah (Fire Plan). Each plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are 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. 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 2005/06 was 20.806% for miscellaneous employees, 27.025% for police, and 16.229% 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 2005/06 the City's annual pension cost was \$1,837,890 (\$1,189,751 for Miscellaneous, \$473,768 for Police and \$174,371 for Fire) and the City actually contributed \$1,837,890. In addition, the City paid \$740,219 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 2005/06 was determined as part of the June 30, 2003, actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include the following:

	<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% - 13.15%	3.25% - 13.15%
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 three-year smoothed market technique that smooths the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of the investment gains and/or losses. Each Plan's unfunded actuarial liability is being amortized as a level percentage of projected payrolls over a closed period that began on the Plan's date of entry into the CalPERS system.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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, 2005, the remaining average amortization period was 30 years for Miscellaneous, and 17 years for Police and 15 years for Fire.

Three-Year Trend Information					
Year Ending	Annual Pension Cost			Percentage	Net Pension
June 30,	Miscellaneous	Police	Fire	Contributed	Obligation
2004	\$432,580	\$0	\$0	100%	\$0
2005	908,823	229,891	140,087	100%	0
2006	1,189,751	473,768	174,371	100%	0

G) Deferred Compensation

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

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF UKIAH
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes:				
Property	\$559,454	\$559,454	\$615,675	\$56,221
Sales and use	5,768,257	5,768,257	5,557,289	(210,968)
Property transfer	40,000	40,000	64,694	24,694
Transient occupancy	400,000	400,000	489,659	89,659
Business license	310,000	310,000	334,449	24,449
Franchise	473,060	473,060	530,011	56,951
Licenses and permits	184,575	184,575	153,096	(31,479)
Fines, forfeitures, and penalties	50,075	50,075	49,623	(452)
From other agencies	698,438	698,438	1,026,450	328,012
Use of money and property	802,079	802,079	969,864	167,785
Charges for current services	749,430	749,430	696,649	(52,781)
Other	2,100	2,100	2,969	869
Total Revenues	<u>10,037,468</u>	<u>10,037,468</u>	<u>10,490,428</u>	<u>452,960</u>
<u>EXPENDITURES</u>				
Current:				
General government	1,333,245	1,450,893	1,552,960	(102,067)
Public safety	6,618,417	6,616,981	6,387,588	229,393
Public works	952,247	1,170,540	1,098,319	72,221
Parks and recreation	1,478,493	1,515,651	1,526,875	(11,224)
Community development	22,000	29,000	6,903	22,097
Debt service	12,552	12,552	2,052	10,500
Capital outlay	421,100	473,690	202,836	270,854
Total Expenditures	<u>10,838,054</u>	<u>11,269,307</u>	<u>10,777,533</u>	<u>491,774</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(800,586)</u>	<u>(1,231,839)</u>	<u>(287,105)</u>	<u>944,734</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	847,600	847,600	907,585	59,985
Transfers out	(102,644)	(102,644)	(787,968)	(685,324)
Total Other Financing Sources (Uses)	<u>744,956</u>	<u>744,956</u>	<u>119,617</u>	<u>(625,339)</u>
Net Change In Fund Balances	(55,630)	(486,883)	(167,488)	319,395
Fund Balances, July 1,	3,618,909	3,618,909	3,618,909	0
Fund Balances, June 30,	<u>\$3,563,279</u>	<u>\$3,132,026</u>	<u>\$3,451,421</u>	<u>\$319,395</u>

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

Miscellaneous Plan Of The City Of Ukiah

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2003	\$28,139,059	\$34,079,314	\$5,940,255	82.6%	\$5,729,559	103.7%
June 30, 2004	29,605,831	37,921,189	8,315,358	78.1%	5,649,233	147.2%
June 30, 2005	31,796,590	41,101,460	9,304,870	77.4%	5,635,150	165.1%

Safety Police Plan Risk Pool (1)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2003	No pooled plan information available					
June 30, 2004	\$4,424,586,846	\$5,383,921,942	\$959,335,096	82.2%	\$575,296,434	166.8%
June 30, 2005	5,295,150,375	6,367,049,264	1,071,898,889	83.2%	664,147,796	161.4%

Safety Fire Plan Risk Pool (1)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2003	No pooled plan information available					
June 30, 2004	\$885,549,650	\$996,203,370	\$110,653,720	88.9%	\$149,407,703	74.1%
June 30, 2005	646,358,708	742,247,338	95,888,630	87.1%	115,062,820	83.3%

(1) = CalPERS requires individual plans with less than 100 active members to participate in a risk pool. The amounts included in the schedule are for the entire risk pool. Individual employer data is no longer provided. Only two years of information was available for risk pools.

SINGLE AUDIT AND OTHER COMPLIANCE

**CITY OF UKIAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through State Department of Housing and Community Development:		
Community Development Block Grants: STBG No. 04-STBG-1938	14.228	\$15,000
Total U.S. Department of Housing and Urban Development		<u>15,000</u>
<u>U.S. Department of Justice</u>		
Passed Through County of Mendocino: Federal Narcotics Forfeiture: US vs Graves - DA #96-FF-010		
	16.999	2,418
Total U.S. Department of Justice		<u>2,418</u>
<u>Department of Interior</u>		
Indian Arts And Crafts Development: NBCH1020015		
	15.850	37,466
Total Department of Interior		<u>37,466</u>
<u>Department of Transportation</u>		
Airport Improvement Program:		
Project: 03-06-0268-06	20.106	609,464
Project: 03-06-0268-07	20.106	22,846
Project: 03-06-0268-08	20.106	78,734
Federal Aid Urban: STPLER-5049 (013)		
	20.205	4,940
Total Department of Transportation		<u>715,984</u>
TOTALS		<u><u>\$770,868</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND OTHER AWARDS
JUNE 30, 2006**

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

Davis W. Hammon, Jr., CPA
(1924-1989)

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED 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 City of Ukiah, California, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ukiah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be a material weakness.

We noted certain other matters that we reported to management of the City of Ukiah in a separate letter dated December 9, 2006.

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.

October 6, 2006



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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, 2006. 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 of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Ukiah's management. Our responsibility is to express an opinion on the City of Ukiah's compliance based on our audit.

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

In our opinion, the City of Ukiah complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Ukiah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ukiah's internal control over compliance with requirements that could have a direct and material effect on a major federal or other program 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

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.

October 6, 2006

**CITY OF UKIAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

A) Summary of Audit Results

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements.
- 2) No reportable conditions 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 reportable conditions 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 Transportation
Airport Improvement Program
CFDA: 20.106
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) The City of Ukiah was determined to be a low-risk auditee.

B) Findings – Financial Statement Audit

No reportable conditions were noted during the current audit period. There were no findings outstanding from prior year audits.

C) Findings and Questioned Costs – Major Federal Award Programs

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



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

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

We have applied the procedures enumerated below to the Appropriations Limit calculations of the City of Ukiah for the year ended June 30, 2006. These procedures, which were agreed to by the City of Ukiah and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

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

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

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

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

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

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

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

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

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

Davis Hammon & Co.

October 6, 2006