

**CITY OF UKIAH  
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT  
AUDITORS' REPORTS

**FOR THE YEAR ENDED JUNE 30, 2009**

**CITY OF UKIAH  
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JUNE 30, 2009**

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## FINANCIAL SECTION



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah, California, as of and for the year ended June 30, 2009 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, 2009 and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2010 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, is not a required part of the basic financial statements. The schedule of expenditures of federal and other awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Davis Hammon & Co.*

June 16, 2010

# **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, 2009. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2009, 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 3% to \$122,711 from \$118,973 a year ago.
- Governmental net assets ended the year at \$51,505 up 7% from \$47,976 in the prior year.
- Total tax revenue, other governmental revenues and business activity revenues exceeded expenses by \$3,738.
- General Fund revenues were less than expenditures and other financing sources and uses by \$63.
- Total revenues from all sources were \$52,731 down 4.6% from \$55,292 in the prior year.
- The total cost of all activities was \$47,093 up 5.9% from the prior year at \$44,469.

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

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

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 Reconciliation of the Balance Sheet on page 18 explains the changes from accrual based net assets to financial-asset based fund balances. Page 20 explains the differences in the *change* in fund balance from current year activity between accrual based and financial-asset based reporting.

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

### 3. FINANCIAL ANALYSIS OF GOVERNMENT WIDE STATEMENTS

The Summary of Net Assets (Table 1) and Changes in Net Assets (Table 2) present the City's governmental and business activities in total for the years ending June 30, 2009 and 2008.

Table 1  
**Summary of Net Assets**  
 For the Fiscal Years Ended June 30, 2009 and 2008  
*(Full Accrual, in Thousands)*

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
<b>Assets:</b>						
Current and other assets	\$38,632	\$36,531	\$63,480	\$77,166	\$102,112	\$113,697
Capital assets	22,329	21,427	130,076	114,371	152,405	135,798
<b>Total assets</b>	<b>60,961</b>	<b>57,958</b>	<b>193,556</b>	<b>191,537</b>	<b>254,517</b>	<b>249,495</b>
<b>Liabilities:</b>						
Long-term debt outstanding	4,724	4,955	111,903	114,766	116,627	119,721
Other liabilities	4,732	5,027	10,447	5,774	15,179	10,801
<b>Total liabilities</b>	<b>9,456</b>	<b>9,982</b>	<b>122,350</b>	<b>120,540</b>	<b>131,806</b>	<b>130,522</b>
<b>Net assets:</b>						
Invested in capital assets net of debt	22,329	21,428	22,509	28,606	44,838	50,034
Restricted	7,107	7,078	1,999	2,004	9,106	9,082
Unrestricted	22,069	19,470	46,698	40,387	68,767	59,857
<b>Total net assets</b>	<b>\$51,505</b>	<b>\$47,976</b>	<b>\$71,206</b>	<b>\$70,997</b>	<b>\$122,711</b>	<b>\$118,973</b>

The City's combined net assets for the fiscal year ended June 30, 2009 were \$122,711. 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 7% from \$47,976 to \$51,505, while business-type activities net assets increased 0.1% from \$70,997 to \$71,206. Legally unrestricted governmental net assets included assets in special revenue funds received for specific purposes, accumulated for capital projects, designated in redevelopment for capital projects, and designated in redevelopment for outside agencies.

Several transfers are included in the City-wide Statement of Activities. \$1,071 was transferred to the General Fund from the Electric Utility, in lieu of taxes that would be charged to an outside provider. This amount is calculated at 6% of electric revenues. The General Fund also received \$44 from the Electric Fund Public Benefits Program.

Rate Stabilization Funds were created in the Sewer Enterprise (\$2,850) to reserve a portion of net income for stabilizing future rates and meeting bond coverage requirements. Additionally, \$1,900 was reserved on behalf of the Ukiah Valley Sanitation District and is presented as a "Special item transfer to other agency" in the Statement of Activities and in Table 2.



**Table 2**  
**Statement of Change in Net Assets**  
For the Fiscal Years Ended June 30, 2009 and 2008  
*(Full Accrual, in Thousands)*

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$5,089	\$5,501	\$28,069	\$28,076	\$33,158	\$33,577
Operating grants and contributions	448	326	20	20	468	346
Capital grants and contributions	658	1,911	684	822	1,342	2,733
Taxes	13,801	14,201			13,801	14,201
From other agencies not restricted to specific programs	1,266	1,229			1,266	1,229
Use of money and property	399	450	2,297	2,756	2,696	3,206
<b>Total revenues</b>	<b>21,661</b>	<b>23,618</b>	<b>31,070</b>	<b>31,674</b>	<b>52,731</b>	<b>55,292</b>
<b>Expenses:</b>						
General government	2,908	3,411			2,908	3,411
Public safety	9,234	8,640			9,234	8,640
Public works	2,003	3,273			2,003	3,273
Community Development	2,526	2,067			2,526	2,067
Community Services (Parks & Rec.)	2,393	2,038			2,393	2,038
Interest on long-term debt	333	365			333	365
Electric			16,739	14,065	16,739	14,065
Water			3,850	3,549	3,850	3,549
Sewer			3,756	3,580	3,756	3,580
Solid Waste Disposal Site (closed)			431	428	431	428
Street Lighting			159	157	159	157
Airport			1,243	1,227	1,243	1,227
Parking District			196	199	196	199
Golf Course			959	1,066	959	1,066
Conference Center			363	404	363	404
<b>Total expenses</b>	<b>19,397</b>	<b>19,794</b>	<b>27,696</b>	<b>24,675</b>	<b>47,093</b>	<b>44,469</b>
Increase N.A. before Trfirs	2,264	3,824	3,374	6,999	5,638	10,823
Special Item-transfer to other agency			(1,900)		(1,900)	-
Transfers	1,265	945	(1,265)	(945)	-	-
<b>Increase in Net Assets</b>	<b>3,529</b>	<b>4,769</b>	<b>209</b>	<b>6,054</b>	<b>3,738</b>	<b>10,823</b>
Beginning Net Assets	47,976	43,207	70,997	64,943	118,973	108,150
<b>Ending Net Assets</b>	<b>\$51,505</b>	<b>\$47,976</b>	<b>\$71,206</b>	<b>\$70,997</b>	<b>\$122,711</b>	<b>\$118,973</b>

## Governmental Activities

Table 3 presents the cost of each of the City's major governmental programs for FY08-09 and FY07-08.

**Table 3**  
**Cost of Governmental Activities**  
 For the Fiscal Years Ended June 30, 2009 and 2008  
*(Full Accrual, in Thousands)*

	Total Cost to Provide Services		Cost Change	Percentage Change
	2009	2008		
General Government	\$2,908	\$3,411	\$(503)	-15%
Public Safety	9,234	8,640	594	7%
Public Works	2,003	3,273	(1,270)	-39%
Parks & Recreation	2,393	2,067	326	16%
Community Development	2,526	2,038	488	24%
Debt service interest	333	365	(32)	-9%
	\$19,397	\$19,794	\$(397)	-2%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total governmental costs decreased by 2%. The increases in Public Safety, Parks & Recreation and Community Development were offset by decreases in General Government, Public Works 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 decreased by \$29 from 2008 to 2009 (to \$2,194 from \$2,223).

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

Public Safety is the largest component of general government, mostly in direct wages paid to safety personnel and capital fire & emergency equipment. In police, salaries and overtime increased \$13. Fire salaries and overtime decreased \$60.

Public Works primarily consists of streets and public rights of way maintenance. The decrease in the 2009 spending for Public Works was due, primarily, to completion of several major projects for the 1998 STIP Augmentation Fund in 2008 including the Arterial Collector Overlay and the Local Street Overlay

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

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

## Business Type Activities

The City's net assets for business-type activities in continuing operations resulted a \$1,441 increase in net assets or 5% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$4,605 increase, or 16% in 2008. The Solid Waste Disposal Site has been permanently closed and its current position is presented separately so as to not distort the results of continuing operations presented on Table 4.

Table 4  
**Statement of Operating Income and Expenses - Business Type Funds**  
 For the Fiscal Years Ended June 30, 2009 and 2008  
*(Full Accrual, in Thousands)*

	Operating Expenses		Operating Revenue		Increase (Decrease) From Operations			
	2009	2008	2009	2008	2009		2008	
Electric	\$16,739	\$14,065	\$15,259	\$15,988	\$(1,480)	-10%	\$1,923	12%
Water	3,850	3,549	2,867	2,920	(983)	-34%	(629)	-22%
Sewer	3,756	3,580	7,647	6,881	3,891	51%	3,301	48%
Street Lights	159	157	185	185	26	14%	28	15%
Airport	1,243	1,226	1,287	1,267	44	3%	41	3%
Parking	196	199	182	194	(14)	-8%	(5)	-3%
Golf Course	959	1,066	1,008	1,030	49	5%	(36)	-3%
Conference Center	363	404	271	386	(92)	-34%	(18)	-5%
<b>Total</b>	<b>\$27,265</b>	<b>\$24,246</b>	<b>\$28,706</b>	<b>\$28,851</b>	<b>\$1,441</b>	<b>5%</b>	<b>\$4,605</b>	<b>16%</b>

### Closed Program

Solid Waste Disposal Site	\$431	\$428	\$67	\$67	\$(364)		\$(361)	
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Electricity purchase costs increased from \$8,566 last year to \$10,451 in FY08-09, while rates charged by the utility were held constant.

Annual water revenue was down 2% from the prior year due primarily to water conservation efforts as a result of the continuing rainfall shortage. The interest and depreciation expenses increased as a result of a major capital project to increase system peak storage and delivery capacity.

The Conference Center was unable to fund its operating expenses, before depreciation, in 2008/2009. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenues but revenues were impacted by the worsening economic situation.

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

## 4. FINANCIAL ANALYSIS OF THE FUND STATEMENTS

### Governmental Funds

The voter approved one-half percent sales tax went into effect in October 2005. This tax accounted for \$2,130 of governmental revenue. Growth in property tax received by the redevelopment agency was offset by declines in the sales and use tax, transient occupancy tax and business license fees. The total decline in governmental revenues was 7.8%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues, expenditures, transfers, and changes in fund balances:

**Table 5**  
**Revenue, Expenditure and Fund Balance Summary: Governmental Funds**  
 For the Fiscal Years Ended June 30, 2009 and 2008  
*(Modified Accrual Basis, Stated in Thousands)*

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Taxes	\$8,694	\$9,530	\$5,107	\$4,671	\$13,801	\$14,201
Licenses and permits	156	142	-	-	156	142
Fines, forfeitures & penalties	82	32	64	96	146	128
From other Agencies	1,309	1,259	1,116	2,357	2,425	3,616
Use of money & property	1,165	1,170	1,398	1,306	2,563	2,476
Charges for current services	896	825	26	100	922	925
Other	3	25	477	711	480	736
<b>Total revenues</b>	<b>12,305</b>	<b>12,983</b>	<b>8,188</b>	<b>9,241</b>	<b>20,493</b>	<b>22,224</b>
<b>Expenditures:</b>						
Current	13,355	13,113	3,619	3,994	16,974	17,107
Debt Service	1	2	552	703	553	705
Capital Outlay	142	107	1,551	404	1,693	511
<b>Total expenditures</b>	<b>13,498</b>	<b>13,222</b>	<b>5,722</b>	<b>5,101</b>	<b>19,220</b>	<b>18,323</b>
Excess(Deficiency)of revenues over Expenditures	(1,193)	(239)	2,466	4,140	1,273	3,901
<b>Other Financing Sources(Uses):</b>						
Transfers In	1,130	1,030	173	227	1,303	1,257
Transfers Out			(38)	(312)	(38)	(312)
	<u>1,130</u>	<u>1,030</u>	<u>135</u>	<u>(85)</u>	<u>1,265</u>	<u>945</u>
Net Change in Fund Balances	(63)	791	2,601	4,055	2,538	4,846
Fund Balances July 1	4,971	4,180	24,772	20,717	29,743	24,897
<b>Fund Balances, June 30</b>	<b>\$4,908</b>	<b>\$4,971</b>	<b>\$27,373</b>	<b>\$24,772</b>	<b>\$32,281</b>	<b>\$29,743</b>

Before the revenue from the additional .5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) decreased at 1.7%. The Transient Occupancy Tax rate was increased from 8% to 10% effective January 2007. The revenue from the additional .5% local sales tax decreased by 8.3% from FY 2007/08 to FY 2008/09.

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

Other Governmental Funds Revenue from Other Agencies includes many government grants which may vary dramatically from year to year. FY05-06 totaled \$1,138, increasing to \$2,516 for FY06-07, dropping to \$2,357 for FY07-08 and again to \$1,116 this year. The largest components of this year's funding included \$205 MCOG, \$135 for Traffic Congestion Relief (Prop 42) and \$237 from FEMA and the Office of Emergency Services for payment of costs incurred in the 2005/06 flood.

Current General Fund expenditures increase by 1.8% over the prior year from \$13,113 to \$13,355. Other Governmental Funds saw a 12% increase in expenditures, primarily in Capital Outlay, for the acquisition of property for low income housing development. Total Governmental Fund expenditures increased from \$18,323 in FY07/08 to \$19,220 in FY08/09, a 4.9% increase.

The net change in fund balance for the General Fund for FY08/09 was a decrease of \$63 compared to a \$791 increase in FY07/08 reflecting the impact of the economic downturn on revenues. The net change in fund balances for the Other Governmental Funds was a decrease of 36% from \$4,055 in FY07/08 to \$2,601 in FY 08/09.

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

Actual General Fund revenues are \$250 under budget, a negative variance of 2%. Total taxes were 6.7% below budget, with property taxes down 9.1% and sales taxes below budget by 7.6%. The regular sales tax revenue was less than the budget by \$361 and the local one-half percent sales tax was under budget by \$166.

Total General Fund expenditures finished the year under budget with a total cost savings of 9% or \$1,305. Some savings were the result of continued downward pressure on spending plans as well as reductions in force and mandatory furlough days for part of the fiscal year.

Before accounting for transfer activity there was a net positive variance of \$1,055. After transfers, the final positive variance in Fund Balance was \$1,294.

## **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**

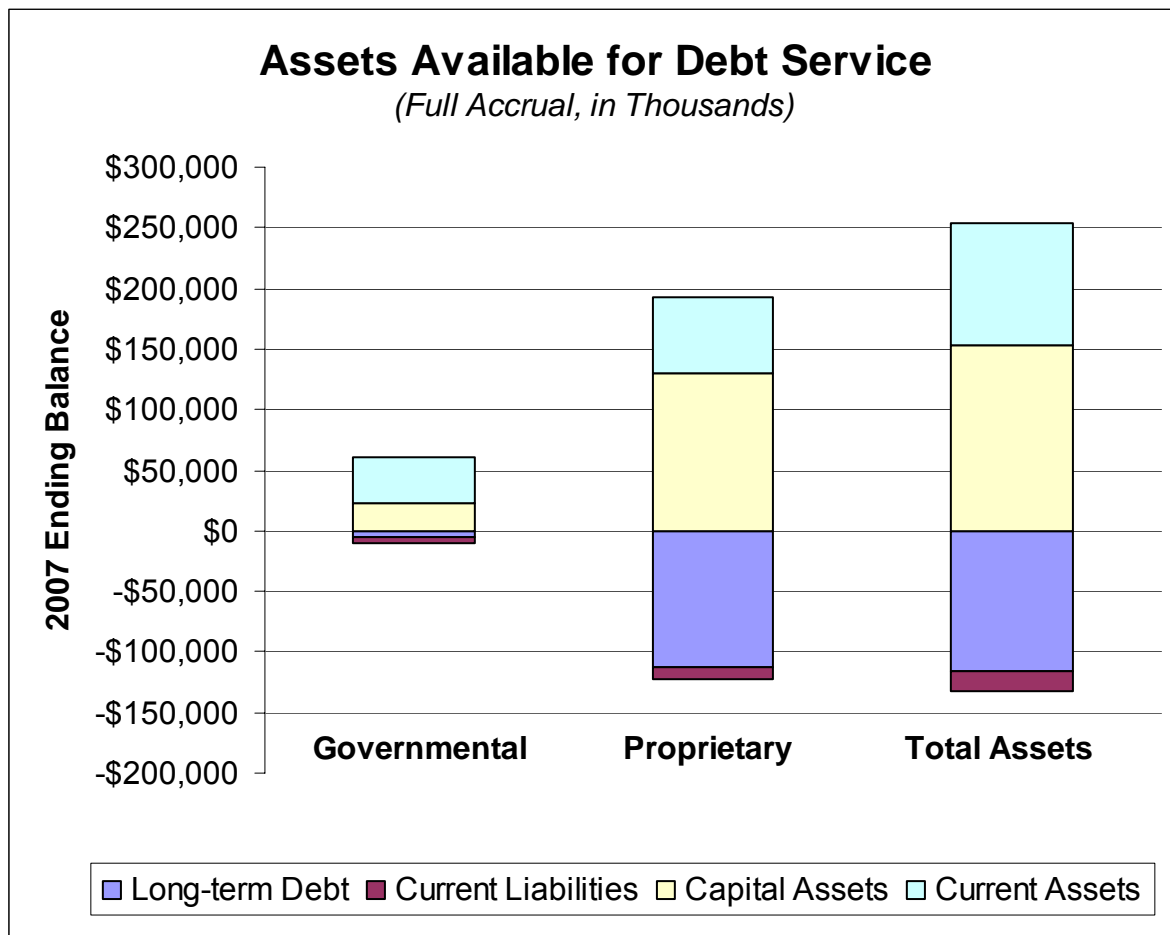
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2009, the investment in capital assets (net of related debt) of the governmental activities totaled \$22,239 and the net capital assets of the business-type activities totaled \$22,509. Depreciation on capital assets is recognized in the Government-Wide and proprietary Fund financial statements, but not in the governmental Fund statements.

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

## 8. CURRENT LIABILITIES AND LONG-TERM DEBT

At year-end, current governmental liabilities are \$4,732 and business-type liabilities are \$10,447. The City had total governmental liabilities totaling \$9,456 and business-type liabilities of \$122,350. Included in these totals are \$4,724 of Redevelopment Agency long-term debt and \$111,903 of business-type debt including the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total liabilities to net assets ratio of 107%, down from 110% in 2008.



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

The City Manager's Budget Message introducing the City's 2010 budget resolution provided a concise overview of the economic and budget issues facing the City over the next few years. This extract covers key points:

Estimated Combined Public Safety and General Fund revenues for FY 2009-10 are \$1,423 below the budgeted revenues for FY 2008-09. The expenditures are \$595 below 08/09 amended budget figures. These amounts include the revenue and expenditures related to the Measure S sales tax which is budgeted to decrease by \$343. Property tax is estimated to decrease \$93 more than the current fiscal year and the triple flip property tax-in-lieu decreasing \$293.

The Measure "S" Sales Tax revenues for 09/10 are projected to be \$1,953. The revenue is included in sales and use taxes reported by the General Fund. Internally, Public Safety (Police and Fire) expenditures of \$8,805 are recorded in Fund #105, but combined in the General Fund for the financial statements. The General Fund #100 provides the additional funding necessary for the expenditures in excess of the revenue received from Measure "S".

## GOVERNMENTAL FUNDS

Based on the analysis of our sales tax consultants, the budget contains a projected sales tax decrease of \$500 over FY 2008-09 projected actual sales tax amount. The FY 2009-10 budget reflects the difficult year that local governments throughout California are facing.

As discussed in the City Manager's Budget Message, more and more city governments are developing structural imbalance between the growth in revenue sources and expenditures. Changes implemented after the adoption of the FY 2009-10 budget included reductions in force, a continued hiring freeze and salary reductions for some bargaining units.

Further reductions in operating expenses will be required for FY 10-11 as the continued economic downturn leads to a reduction in the sales tax and other revenues to the City. Uncertain financial conditions at the State level may have unknown fiscal impacts on the City.

Measure "S" Sales Tax: While this revenue source is part of the General Fund for budget purposes, it will be internally recorded as a separate fund. The sales tax and interest revenue is projected to be \$2,078 for the 09/10 budget year. Expenditures are broken into two categories: Police Department and Fire Department. Budgeted expenditures are \$8,805. These expenditures are the entirety of the Police and Fire operations, with the additional funding coming from the City's General Fund #100 to make up the difference between the Measure "S" funding and budgeted expenses. The funding plan behind Measure "S" called for General Fund support of \$5,020 per year.

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

## ENTERPRISE FUNDS

Electric Utility: The Electric Utility expenditures are projected to decrease for the new year. A major project for the Electric Department will be to complete detailed design and begin construction of the new Gobbi Street substation.

Water Operations: The final scheduled rate increase occurred in November 2008. A new five year rate study has been contracted for with the anticipation of the first scheduled increase becoming effective in 2010/11. Adding to the difficulties facing the City in the next few years is the lack of water brought on by a third year of below average rain fall in both Mendocino County and the state as a whole

Wastewater Operations: We are anticipating completion of the Wastewater Treatment Plant capacity upgrade and rehabilitation project in FY09/10. Bonds were sold and the construction projects were initially budgeted in 2005-2006 and will carry forward until completion. Sewer rates were increased, effective December, 2005 and each July thereafter, through 2009 to repay the bonds. A new five year rate study has been contracted for with a completion date in FY09/10. 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: The golf operation is part of ongoing discussions with the contract operator to streamline operations and control expenses.

Ukiah Valley Conference Center: The economic downturn impacted the ability of the Conference Center to continue the trend of positive net income before depreciation expense that was achieved for FY 06/07 and FY 07/08. A net loss, before depreciation, of \$44 occurred for FY08/09. Capital costs will continue to be subsidized, as necessary, by the General Fund until the Conference Center is able to provide funding beyond operating expenses.

## REDEVELOPMENT AGENCY

In past years, the Redevelopment Agency has cut costs with the elimination of two positions—the Assistant City Manager and the Deputy Redevelopment Director. The Assistant City Manager was the designated Business Liaison for the City and provided individual assistance and support for the business community. Since the position was eliminated due to budget cuts, there was very little staff time for direct contact on a regular basis. Council expressed strong support for enhanced economic development activity both for retention of our current businesses and to assist interested parties in receiving information about the valley and approved funding an Economic Development Coordinator position that will handle both economic development needs as well as administrative special projects. For FY 2009/2010, the agency is funding 100% of the cost of a Project and Grant Administrator to oversee economic development related projects and grants. Additionally, 80% of the reestablished Assistant City Manager position, 15% of the Finance Controller position, and 15% of the Accounting Operations Manager position are funded by the Agency.

The Agency is required to reserve 20% of the Redevelopment revenue for the Housing allocation. Two years ago, the Council requested that Housing Fund money be reserved to provide funding for a large capital project rather than portioning out the fund balance to many small projects or programs. The projected fund balance for the RDA's portion of the Housing money at the end of FY 2009/10 is \$572. The Council is planning for major project expenditures for land acquisition in FY 2009/10. Possible new projects for discussion include development of the NCRA depot property, a Master Plan for the downtown corridor, rehabilitation of State and Main Streets, and parking lot improvements. Additional housing money is reserved for projects identified by Mendocino County and Mendocino College. The balance for these funds is projected to be \$316, at the end of FY 2009/10.

## SUMMARY

While facing the prospect of reduced revenue, the city continues to provide not only the basic services but also many quality-of-life services that enhance our community. City staff will continue development of expenditure reduction plans during FY 2009/10 to realign revenue and expenditures. The City plans on utilizing General Fund reserves to finance operating expenses. Expenditure reductions, changes in fees and charges, and related organizational changes are expected to result in balanced future budgets. Sponsorships, donations and fees for service cover many of our youth sports and recreation programs as well as community events. Successful grant funding has assisted the City in providing new playground equipment in four of our city parks as well as providing the majority of funding for the new skateboard park and upgrade of the swimming pool facility and Anton stadium. We will continue to apply for grants in all categories including bike lane enhancements and transportation funding as they become available. The release of STIP funding from the state has also enhanced our ability to provide public works upgrades to our street and infrastructure systems. As potential growth in the surrounding unincorporated areas continues to impact city services we need to prepare for possible service enhancements. Every decision in regards to expansion of service should be weighed against funding options and economies of scale to ensure that we do not further erode city revenues without equivalent funding for expenditures.

## **10. CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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



## BASIC FINANCIAL STATEMENTS

**CITY OF UKIAH  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Funds</u>	<u>Total</u>
Cash and investments	\$ 33,088,576	\$ 40,047,587	\$ 73,136,163
Receivables (net)	5,094,383	3,042,642	8,137,025
Internal balances	(155,746)	155,746	-
Restricted Assets:			
Temporarily Restricted:			
Cash with fiscal agent	493,297	18,015,557	18,508,854
Prepaid expenses	2,994		2,994
Deposits	760	4,600	5,360
Inventory		842,616	842,616
Deferred charges	107,787	1,371,638	1,479,425
Capital assets (net of accumulated depreciation)	22,328,676	130,076,002	152,404,678
 Total Assets	 <u>60,960,727</u>	 <u>193,556,388</u>	 <u>254,517,115</u>
 <u>LIABILITIES</u>			
Accounts payable and other current liabilities	1,894,947	5,900,857	7,795,804
Accrued interest payable	19,528	39,966	59,494
Liabilities payable from restricted assets		1,376,944	1,376,944
Deferred revenues	2,582,648		2,582,648
Customer deposits		2,162	2,162
Noncurrent Liabilities:			
Due within one year	235,000	3,126,854	3,361,854
Due in more than one year	4,723,660	111,903,633	116,627,293
 Total Liabilities	 <u>9,455,783</u>	 <u>122,350,416</u>	 <u>131,806,199</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	22,328,676	22,508,736	44,837,412
Restricted for:			
Public safety	148,306		148,306
Streets and highways	1,305,891		1,305,891
Community development	925,181		925,181
Low and moderate income housing	2,531,431		2,531,431
Debt service	2,196,448	1,999,495	4,195,943
Unrestricted	22,069,011	46,697,741	68,766,752
 Total Net Assets	 <u>\$ 51,504,944</u>	 <u>\$ 71,205,972</u>	 <u>\$ 122,710,916</u>

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

CITY OF UKIAH  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue And Changes In Net Assets		Total
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	
Governmental Activities:							
General government	\$ 2,908,642	\$ 1,410,045			\$ (1,498,597)		\$ (1,498,597)
Public safety	9,233,988	1,099,193	\$ 42,283		(8,092,512)		(8,092,512)
Public works	2,002,957	1,000,841	405,268	\$ 475,441	(121,407)		(121,407)
Parks and recreation	2,392,889	588,419		182,142	(1,622,328)		(1,622,328)
Community development	2,525,679	990,501			(1,535,178)		(1,535,178)
Debt service:							
Interest	333,081				(333,081)		(333,081)
<b>Total Governmental Activities</b>	<b>19,397,237</b>	<b>5,088,999</b>	<b>447,551</b>	<b>657,583</b>	<b>(13,203,104)</b>	<b>\$ -</b>	<b>(13,203,104)</b>
Business-Type Activities:							
Electric	16,739,318	15,259,236				(1,480,082)	(1,480,082)
Water	3,850,248	2,866,811				(983,437)	(983,437)
Sewer	3,755,359	7,008,738		638,000		3,891,379	3,891,379
Disposal site	430,643	67,297				(363,346)	(363,346)
Street lighting	158,898	184,869				25,971	25,971
Airport	1,242,936	1,230,819	10,000	46,170		44,053	44,053
Parking	195,806	172,179	9,920			(13,707)	(13,707)
Golf course	959,253	1,007,394				48,141	48,141
Conference center	363,190	271,293				(91,897)	(91,897)
<b>Total Business-Type Activities</b>	<b>27,695,651</b>	<b>28,068,636</b>	<b>19,920</b>	<b>684,170</b>	<b>-</b>	<b>1,077,075</b>	<b>1,077,075</b>
<b>Total</b>	<b>\$ 47,092,888</b>	<b>\$ 33,157,635</b>	<b>\$ 467,471</b>	<b>\$ 1,341,753</b>	<b>(13,203,104)</b>	<b>1,077,075</b>	<b>(12,126,029)</b>
General Revenues:							
Taxes:							
Property					5,741,393		5,741,393
Sales and use					6,439,622		6,439,622
Property transfer					42,863		42,863
Transient occupancy					710,053		710,053
Business license					284,797		284,797
Franchise					582,764		582,764
From other agencies not restricted to specific programs					1,266,285		1,266,285
Use of money and property					398,868	2,297,298	2,696,166
Special item - transfer to other agency						(1,900,000)	(1,900,000)
Transfers					1,265,107	(1,265,107)	-
<b>Total General Revenues, Special Items And Transfers</b>					<b>16,731,752</b>	<b>(867,809)</b>	<b>15,863,943</b>
Change In Net Assets					3,528,648	209,266	3,737,914
Net Assets - beginning					47,976,296	70,996,706	118,973,002
<b>Net Assets - Ending</b>					<b>\$ 51,504,944</b>	<b>\$ 71,205,972</b>	<b>\$ 122,710,916</b>

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

CITY OF UKIAH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	General	Redevelopment Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and investments	\$ 4,147,022	\$ 12,769,163	\$ 14,243,457	\$ 31,159,642
Cash with fiscal agent - restricted			493,297	493,297
Receivables:				
Accounts (net)	437,398		184,370	621,768
Interest	420,113			420,113
Property taxes	69,512	179,590	178,974	428,076
Grants			1,197,483	1,197,483
Loans	2,260		2,366,984	2,369,244
Prepaid expenses	2,994			2,994
Due from other funds	61,788			61,788
Advances due from other funds	1,025,276			1,025,276
<b>Total Assets</b>	<b>\$ 6,166,363</b>	<b>\$ 12,948,753</b>	<b>\$ 18,664,565</b>	<b>\$ 37,779,681</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 164,129	\$ 31,454	\$ 235,189	\$ 430,772
Accrued salaries and benefits	430,296		34,407	464,703
Accrued compensated absences	634,817		29,283	664,100
Contract retentions payable			-	-
Deferred revenues			2,582,648	2,582,648
Due to other funds	11,836		83,314	95,150
Advances due to other funds	17,389		1,243,743	1,261,132
<b>Total Liabilities</b>	<b>1,258,467</b>	<b>31,454</b>	<b>4,208,584</b>	<b>5,498,505</b>
Fund Balances:				
Reserved for:				
Encumbrances	157,599	104,114	2,471,896	2,733,609
Petty cash	1,800			1,800
Long-term receivable	1,025,276			1,025,276
Low/Moderate housing			2,529,431	2,529,431
Park development			8,000	8,000
Capital outlay - outside agencies		4,230,936	197,881	4,428,817
Debt service			2,196,448	2,196,448
Unreserved, reported in:				
General fund	3,723,221			3,723,221
Special revenue funds			1,418,084	1,418,084
Capital projects funds		8,582,249	5,634,241	14,216,490
<b>Total Fund Balances</b>	<b>4,907,896</b>	<b>12,917,299</b>	<b>14,455,981</b>	<b>32,281,176</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ 6,166,363</b>	<b>\$ 12,948,753</b>	<b>\$ 18,664,565</b>	<b>\$ 37,779,681</b>

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

**CITY OF UKIAH  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2009**

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

Total Fund Balances	\$ 32,281,176
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	46,858,263
Less: Accumulated depreciation	(24,967,626)
 Internal service funds are used by management to charge the costs of garage, stores, billing, workers' compensation, public safety dispatch and liability insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	2,203,532
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Ukiah Redevelopment Agency capital lease payable	(5,020,000)
Deferred issue costs (will be amortized)	107,787
Bond discount (will be amortized)	61,340
Accrued interest on long-term debt	(19,528)
 <b>Net Assets Of Governmental Activities</b>	<b>\$ 51,504,944</b>

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

**CITY OF UKIAH**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>REVENUES</u>	<u>General</u>	<u>Redevelopment Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes:				
Property	\$ 634,382	\$ 2,596,314	\$ 2,510,697	\$ 5,741,393
Sales and use	6,439,622			6,439,622
Property transfer	42,863			42,863
Transient occupancy	710,053			710,053
Business license	284,797			284,797
Franchise	582,764			582,764
Licenses and permits	155,807			155,807
Fines, forfeitures, and penalties	82,078		63,893	145,971
From other agencies	1,308,568		1,115,691	2,424,259
Use of money and property	1,165,359	610,824	786,938	2,563,121
Charges for current services	896,255		26,532	922,787
Other	2,571	8,803	468,535	479,909
<b>Total Revenues</b>	<b>12,305,119</b>	<b>3,215,941</b>	<b>4,972,286</b>	<b>20,493,346</b>
 <u>EXPENDITURES</u>				
Current:				
General government	1,695,361		92,581	1,787,942
Public safety	8,373,632		282,518	8,656,150
Street and roads	1,171,527		626,980	1,798,507
Parks and recreation	1,981,075		255,911	2,236,986
Community development	133,184	851,831	1,509,414	2,494,429
Debt service:				
Principal			230,000	230,000
Interest	1,065		322,476	323,541
Capital outlay	142,446		1,550,733	1,693,179
<b>Total Expenditures</b>	<b>13,498,290</b>	<b>851,831</b>	<b>4,870,613</b>	<b>19,220,734</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,193,171)	2,364,110	101,673	1,272,612
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,130,167		173,100	1,303,267
Transfers out			(38,160)	(38,160)
<b>Total Other Financing Sources (Uses)</b>	<b>1,130,167</b>	<b>-</b>	<b>134,940</b>	<b>1,265,107</b>
<b>Net Change In Fund Balances</b>	<b>(63,004)</b>	<b>2,364,110</b>	<b>236,613</b>	<b>2,537,719</b>
Fund Balances, July 1,	4,970,900	10,553,189	14,219,368	29,743,457
<b>Fund Balances, June 30,</b>	<b>\$ 4,907,896</b>	<b>\$ 12,917,299</b>	<b>\$ 14,455,981</b>	<b>\$ 32,281,176</b>

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

**CITY OF UKIAH  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

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

Net change in fund balances - total governmental funds	\$	2,537,719
<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		1,693,179
Depreciation		(959,934)
<p>The issuance of long-term debt provided current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>		
Principal Repayments:		
Ukiah Redevelopment Agency loan payments		230,000
<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		711
Amortize bond issue costs		(6,533)
Amortize bond premium		(3,718)
<p>Internal service funds are used by management to charge the costs of garage, stores, billing, workers' compensation, public safety dispatch and liability insurance to individual funds. The net expenditures of certain activities of the internal service funds are reported with governmental activities</p>		
		37,224
 <b>Change In Net Assets Of Governmental Activities</b>	 <b>\$</b>	 <b><u>3,528,648</u></b>

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

**CITY OF UKIAH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009**

<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	\$ 17,965,818	\$ 1,885,883	\$ 10,734,059	\$ 8,595,595	\$ 866,232	\$ 40,047,587	\$ 1,928,934
Receivables:							
Accounts (net)	1,087,651	175,653	179,291		74,434	1,517,029	57,699
Unbilled	976,015	204,832	339,013			1,519,860	
Grants					5,056	5,056	
Property taxes					697	697	
Due from other funds	61,762					61,762	33,990
Deposits		3,800			800	4,600	760
Inventory	773,172	69,444				842,616	
Total Current Assets	<u>20,864,418</u>	<u>2,339,612</u>	<u>11,252,363</u>	<u>8,595,595</u>	<u>947,219</u>	<u>43,999,207</u>	<u>2,021,383</u>
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,071,031	396,493	15,548,033			18,015,557	
Other Noncurrent Assets:							
Advances due from other funds	951,153					951,153	79,482
Unamortized capital debt issue costs	129,864	423,990	817,784			1,371,638	
Capital Assets:							
Land	1,473,798		670,431	699,654	1,829,928	4,673,811	
Land improvements	35,751	129,206	120,290		1,677,335	1,962,582	
Infrastructure	10,364,421	6,909,823	5,357,391		1,233,407	23,865,042	
Buildings and improvements	25,428,776	18,130,288	10,179,727		2,943,142	56,681,933	327,113
Licensed vehicles	1,423,917	373,625	510,766	101,296	191,707	2,601,311	26,574
Machinery and equipment	1,619,077	1,935,807	1,132,951	404,039	401,486	5,493,360	396,805
Less: Accumulated depreciation	(18,919,199)	(6,136,515)	(7,088,088)	(292,797)	(3,500,913)	(35,937,512)	(312,453)
Construction in progress			70,450,776		284,699	70,735,475	
Total Noncurrent Assets	<u>24,578,589</u>	<u>22,162,717</u>	<u>97,700,061</u>	<u>912,192</u>	<u>5,060,791</u>	<u>150,414,350</u>	<u>517,521</u>
<b>Total Assets</b>	<b><u>45,443,007</u></b>	<b><u>24,502,329</u></b>	<b><u>108,952,424</u></b>	<b><u>9,507,787</u></b>	<b><u>6,008,010</u></b>	<b><u>194,413,557</u></b>	<b><u>2,538,904</u></b>

continued

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



CITY OF UKIAH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<b><u>LIABILITIES</u></b>							
Current Liabilities:							
Accounts payable	112,255	173,113	5,043,830	2,595	120,742	5,452,535	198,430
Accrued salaries and benefits	71,982	44,099	46,363	737	36,356	199,537	58,578
Accrued compensated absences	83,618	58,325	68,628	3,255	34,959	248,785	78,364
Accrued interest payable		16,898	16,586	1,772	4,710	39,966	
Customer deposits					2,162	2,162	
Due to other funds					62,390	62,390	
Current portion of long-term debt		415,474	1,546,380			1,961,854	
<b>Total Current Liabilities</b>	<b>267,855</b>	<b>707,909</b>	<b>6,721,787</b>	<b>8,359</b>	<b>261,319</b>	<b>7,967,229</b>	<b>335,372</b>
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,165,000					1,165,000	
Accrued interest payable	71,536	198,441	1,106,967			1,376,944	
<b>Total Current Liabilities Payable From Restricted Assets</b>	<b>1,236,536</b>	<b>198,441</b>	<b>1,106,967</b>	<b>-</b>	<b>-</b>	<b>2,541,944</b>	<b>-</b>
Noncurrent Liabilities:							
Advances from other funds					794,779	794,779	
Installment obligation (net of unamortized discount)		13,592,044	73,520,390			87,112,434	
State loans payable		1,760,845	2,307,400			4,068,245	
Revenue bonds payable (net of unamortized discount)	12,313,743					12,313,743	
Estimated landfill closure costs				8,409,211		8,409,211	
<b>Total Noncurrent Liabilities</b>	<b>12,313,743</b>	<b>15,352,889</b>	<b>75,827,790</b>	<b>8,409,211</b>	<b>794,779</b>	<b>112,698,412</b>	<b>-</b>
<b>Total Liabilities</b>	<b>13,818,134</b>	<b>16,259,239</b>	<b>83,656,544</b>	<b>8,417,570</b>	<b>1,056,098</b>	<b>123,207,585</b>	<b>335,372</b>
<b><u>NET ASSETS</u></b>							
Invested in capital assets, net of related debt	7,691,541	5,680,916	4,020,465	912,192	4,203,622	22,508,736	438,039
Restricted for debt service	1,999,495					1,999,495	
Unrestricted	21,933,837	2,562,174	21,275,415	178,025	748,290	46,697,741	1,765,493
<b>Total Net Assets</b>	<b>\$ 31,624,873</b>	<b>\$ 8,243,090</b>	<b>\$ 25,295,880</b>	<b>\$ 1,090,217</b>	<b>\$ 4,951,912</b>	<b>\$ 71,205,972</b>	<b>\$ 2,203,532</b>

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

**CITY OF UKIAH**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<b><u>OPERATING REVENUES</u></b>							
Charges for current services	\$ 15,215,404	\$ 2,866,811	\$ 7,004,963	\$ 60,000	\$ 2,611,911	\$ 27,759,089	\$ 2,095,213
Licenses and permits					89,498	89,498	
Fines, forfeitures and penalties					82,681	82,681	
Other revenues	43,832		3,775	7,297	82,464	137,368	989,764
Total Operating Revenues	<u>15,259,236</u>	<u>2,866,811</u>	<u>7,008,738</u>	<u>67,297</u>	<u>2,866,554</u>	<u>28,068,636</u>	<u>3,084,977</u>
<b><u>OPERATING EXPENSES</u></b>							
Purchased power	10,450,849					10,450,849	
Operations	2,708,603	839,299	1,381,177	25,735	1,537,763	6,492,577	1,578,519
Maintenance		523,272	472,116	341,764	69,491	1,406,643	61,976
Fuels and lubricants					752,595	752,595	10,877
Utilities		345,657	301,312	4,006	261,041	912,016	14,763
General and administration	1,698,718	873,266	1,127,878	46,390	126,216	3,872,468	220,776
Insurance premiums and deductibles							1,239,847
Depreciation	912,453	589,273	385,277	12,748	135,055	2,034,806	13,421
Total Operating Expenses	<u>15,770,623</u>	<u>3,170,767</u>	<u>3,667,760</u>	<u>430,643</u>	<u>2,882,161</u>	<u>25,921,954</u>	<u>3,140,179</u>
Operating Income	<u>(511,387)</u>	<u>(303,956)</u>	<u>3,340,978</u>	<u>(363,346)</u>	<u>(15,607)</u>	<u>2,146,682</u>	<u>(55,202)</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>							
Taxes					9,920	9,920	
From other agencies			638,000		56,170	694,170	79,196
Interest income	1,062,933	99,632	659,190	439,405	36,138	2,297,298	18,260
Interest expense and fiscal charges	(968,695)	(679,481)	(87,599)		(37,922)	(1,773,697)	(5,030)
Total Nonoperating Revenues (Expenses)	<u>94,238</u>	<u>(579,849)</u>	<u>1,209,591</u>	<u>439,405</u>	<u>64,306</u>	<u>1,227,691</u>	<u>92,426</u>
Income Before Special Items And Transfers	<u>(417,149)</u>	<u>(883,805)</u>	<u>4,550,569</u>	<u>76,059</u>	<u>48,699</u>	<u>3,374,373</u>	<u>37,224</u>
Special item - transfer to other agency			(1,900,000)			(1,900,000)	
Transfers out	(1,265,107)					(1,265,107)	
Change In Net Assets	<u>(1,682,256)</u>	<u>(883,805)</u>	<u>2,650,569</u>	<u>76,059</u>	<u>48,699</u>	<u>209,266</u>	<u>37,224</u>
Total Net Assets - beginning	33,307,129	9,126,895	22,645,311	1,014,158	4,903,213	70,996,706	2,166,308
<b>Total Net Assets - ending</b>	<b><u>\$ 31,624,873</u></b>	<b><u>\$ 8,243,090</u></b>	<b><u>\$ 25,295,880</u></b>	<b><u>\$ 1,090,217</u></b>	<b><u>\$ 4,951,912</u></b>	<b><u>\$ 71,205,972</u></b>	<b><u>\$ 2,203,532</u></b>

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

**CITY OF UKIAH  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<b>Cash Flows From Operating Activities:</b>							
Receipts from customers and users	\$ 15,345,184	\$ 2,882,875	\$ 7,251,037	\$ 67,297	\$ 2,883,201	\$ 28,429,594	\$ 146,520
Receipts from interfund services provided							2,908,255
Payments to suppliers	(13,219,612)	(1,471,271)	(2,067,639)	(160,185)	(2,113,721)	(19,032,428)	(1,972,733)
Payments to employees	(1,139,441)	(729,979)	(935,580)	(13,719)	(586,794)	(3,405,513)	(955,828)
Payments for interfund services provided	(488,956)	(235,684)	(300,061)	(746)	(123,725)	(1,149,172)	
Net Cash Provided (Used) By Operating Activities	<u>497,175</u>	<u>445,941</u>	<u>3,947,757</u>	<u>(107,353)</u>	<u>58,961</u>	<u>4,842,481</u>	<u>126,214</u>
<b>Cash Flows From Noncapital Financing Activities:</b>							
Property taxes and subventions					9,917	9,917	
From(To) other agencies			(1,900,000)		10,000	(1,890,000)	
Advances from(to) other funds	58,265				(3,011)	55,254	33,984
Transfers in(out)	(1,265,107)					(1,265,107)	
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(1,206,842)</u>	<u>-</u>	<u>(1,900,000)</u>	<u>-</u>	<u>16,906</u>	<u>(3,089,936)</u>	<u>33,984</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>							
Acquisition and construction of capital assets	(1,120,216)		(10,053,476)		(238,103)	(11,411,795)	(181,297)
Capital grants					222,881	222,881	
Principal paid on capital debt	(1,095,000)	(401,562)	(736,291)			(2,232,853)	
Interest paid on capital debt	(926,875)	(674,876)	(3,428,903)		(35,260)	(5,065,914)	
Trustee fees	(6,327)					(6,327)	
From other agencies			638,000			638,000	79,196
Advances from(to) other funds					245,207	245,207	(106,743)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(3,148,418)</u>	<u>(1,076,438)</u>	<u>(13,580,670)</u>	<u>-</u>	<u>194,725</u>	<u>(17,610,801)</u>	<u>(208,844)</u>
<b>Cash Flows From Investing Activities:</b>							
Interest on investments	1,065,548	101,796	1,519,557	439,405	36,138	3,162,444	13,230
Net Cash Provided (Used) By Investing Activities	<u>1,065,548</u>	<u>101,796</u>	<u>1,519,557</u>	<u>439,405</u>	<u>36,138</u>	<u>3,162,444</u>	<u>13,230</u>
Net Increase (Decrease) In Cash	(2,792,537)	(528,701)	(10,013,356)	332,052	306,730	(12,695,812)	(35,416)
Cash Balance - beginning	22,829,386	2,811,077	36,295,448	8,263,543	559,502	70,758,956	1,964,350
<b>Cash Balance - ending</b>	<u>\$ 20,036,849</u>	<u>\$ 2,282,376</u>	<u>\$ 26,282,092</u>	<u>\$ 8,595,595</u>	<u>\$ 866,232</u>	<u>\$ 58,063,144</u>	<u>\$ 1,928,934</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, 2009**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<b>Reconciliation of Cash Balance:</b>							
Cash	\$17,965,818	\$1,885,883	\$10,734,059	\$8,595,595	\$866,232	\$40,047,587	\$1,928,934
Restricted cash with fiscal agent	2,071,031	396,493	15,548,033			18,015,557	
<b>Cash Balance - ending</b>	<b>\$20,036,849</b>	<b>\$2,282,376</b>	<b>\$26,282,092</b>	<b>\$8,595,595</b>	<b>\$866,232</b>	<b>\$58,063,144</b>	<b>\$1,928,934</b>
 <b>Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:</b>							
Operating income (loss)	(\$511,387)	(\$303,956)	\$3,340,978	(\$363,346)	(\$15,607)	\$2,146,682	(\$55,202)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:							
Depreciation	912,453	589,273	385,277	12,748	135,055	2,034,806	13,421
Decrease (Increase) in receivables	85,948	16,064	242,299		16,647	360,958	(21,515)
Decrease (Increase) in inventory	(19,229)	138				(19,091)	0
Decrease (Increase) in payables	29,390	139,149	(20,797)	243,245	(77,134)	313,853	189,510
Amortization		5,273				5,273	
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>\$497,175</b>	<b>\$445,941</b>	<b>\$3,947,757</b>	<b>(\$107,353)</b>	<b>\$58,961</b>	<b>\$4,842,481</b>	<b>\$126,214</b>
 <b>Non-Cash Transactions:</b>							
Amortize capital debt issue costs	\$14,429	\$18,835	\$30,667			\$63,931	
Amortize capital debt discount (premium)	28,473	(4,084)	(2,265)			22,124	
Accrue additional landfill closure/postclosure costs				\$242,005		242,005	

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

**CITY OF UKIAH  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2009**

	<b>Private Purpose Trust</b>	<b>Agency Funds</b>
<b><u>ASSETS</u></b>		
Assets:		
Cash and investments	\$ 1,943,143	\$ 5,283,983
Receivables:		
Accounts (net)	25,022	5,025
 Total Assets	 1,968,165	 5,289,008
<b><u>LIABILITIES</u></b>		
Liabilities:		
Accounts payable	\$10,439	117,364
Accrued salaries and benefits	143,021	
Utility and other deposits	849,321	
Due to Ukiah Valley Sanitation District		4,560,310
Due to Solid Wastes Systems		512,839
Due to M.E.S.A.		76
Due to Russian River JPA		98,419
 Total Liabilities	 1,002,781	 \$ 5,289,008
<b><u>NET ASSETS</u></b>		
Held in trust for other purposes	\$ 965,384	

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, 2009

	<u>Private Purpose Trust</u>
<b><u>Additions</u></b>	
Taxes	\$26,059
Total Additions	<u>26,059</u>
<b><u>Deductions</u></b>	
Current:	
Community development	23,052
Retirement benefits	285,164
Total Deductions	<u>308,216</u>
Change in net assets	(282,157)
Net Assets - beginning	1,247,541
Net Assets - ending	<u><b>\$965,384</b></u>

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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**1) Summary of Significant Accounting Policies**

**A) Reporting Entity**

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

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

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

**B) Government-Wide And Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information of all the nonfiduciary activities of the City and its component units. For the most part, the effect of Interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

**CITY OF UKIAH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

**D) Assets, Liabilities, And Net Assets Or Equity**

1) Cash And Investments

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



**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

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 \$1,519,860 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2009. 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, 2009.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$730,252, including \$114,236 for emergency response billings and booking fees, and were determined based on an analysis of historical trends.

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

3) Inventories And Prepaid Items

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

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

4) Restricted Assets

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

5) Capital Assets

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

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

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

Interest is capitalized on construction of major assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. For the year ended June 30, 2009, net interest expense of \$2,601,409 was capitalized in the Sewer Fund for the wastewater treatment plant upgrade project.

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

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.

**2 Stewardship, Compliance And Accountability**

**A) Budgetary Information**

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

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations totaling \$5,209,770 were authorized.

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

**CITY OF UKIAH  
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**B) Excess Of Expenditures Over Appropriations**

For the year ended June 30, 2009, the following fund had expenditures exceeding appropriations:

Expenditures Over Appropriations:	
Asset Seizure	\$ 50,775

**C) Deficit Fund Equity**

The following funds had deficit fund balances as of June 30, 2009. These deficits were primarily caused by expenditures in excess of grant awards. Management is monitoring each fund's activities to ensure improved financial position. The deficits do not represent a significant financial burden.

Deficit Fund Equities:	
Local Law Enforcement Block Grant	\$ (15,020)
STIP Augmentation	(76,003)
Ukiah Redevelopment Agency	(23,349)
Downtown Business Improvement	(1,393)

**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	\$ 73,136,163
Restricted cash with fiscal agent	18,508,854
Statement of Fiduciary Net Assets:	
Cash and investments	<u>7,227,126</u>
Total Cash and Investments	<u><u>\$ 98,872,143</u></u>

Cash and investments consist of the following:

Cash on hand	\$ 1,950
Deposits with financial institutions	3,603,992
Investments	<u>95,266,201</u>
Total Cash and Investments	<u><u>\$ 98,872,143</u></u>

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
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**Authorized Investments – City Investment Policy**

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

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

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

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

**Authorized Investments – Debt Trustee Agreements**

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

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

**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

**CITY OF UKIAH  
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As of June 30, 2009, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 14,217,857	1.79
U.S Treasury Bonds and Notes	22,283,880	2.46
U.S. Government Agency Bonds and Notes	27,451,536	1.90
Municipal and State Bonds	2,559,559	0.03
Money Market Funds	295,147	0.00
State Investment Pool (LAIF)	9,949,368	0.64
Held By Bond Trustee:		
Money Market Funds	18,508,854	0.00
<b>Total Fair Value</b>	<b>\$ 95,266,201</b>	
<b>Portfolio Weighted Average Maturity</b>		<b>1.12</b>

**Dislosures 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, 2009, the City's investments were in compliance with the ratings required by the City's investment policy and indenture agreements.

Investment Type	Fair Value	Exempt From Disclosure	Year End Rating			Not Rated
			AAA/AAAm	AA+/AA/AA-	A+/A-1+	
Corporate Bonds and Notes	\$ 14,217,857		\$ 7,612,305	\$ 2,155,380	\$ 4,450,172	
U.S Treasury Bonds and Notes	22,283,880	\$ 22,283,880				
U.S. Government Agency Bonds and Notes	27,451,536		27,451,536			
Municipal and State Bonds	2,559,559			1,351,519	1,208,040	
Money Market Funds	295,147		295,147			
State Investment Pool	9,949,368					\$ 9,949,368
Held By Bond Trustee:						
Money Market Funds	18,508,854		18,508,854			
<b>Total Fair Value</b>	<b>\$ 95,266,201</b>	<b>\$ 22,283,880</b>	<b>\$ 53,867,842</b>	<b>\$ 3,506,899</b>	<b>\$ 5,658,212</b>	<b>\$ 9,949,368</b>

**Concentrations of Credit Risk**

With the exception of securities of the U.S. Government and its Agencies, the investment policy of the City limit the amount that can be invested in any one issuer to no more than 10% of the total portfolio. At June 30, 2009, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total City investments.

**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.

**CITY OF UKIAH  
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At year-end, the City's deposits with financial institutions totaled \$3,603,992, of which \$636,881 was covered by federal depository insurance. The \$2,967,111 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2009, City investments in the following investment types were held by the same institution that was used by the City to buy the securities:

Corporate Bonds and Notes	\$ 14,217,857
U.S Treasury Bonds and Notes	22,283,879
U.S. Government Agency Bonds and Notes	27,451,535
Municipal and State Bonds	2,559,559
Money Market Funds	295,147

**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.

**B) Capital Assets**

Capital assets activity for the year ended June 30, 2009 was as follows:

<b>Government Activities:</b>	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Nondepreciable Capital Assets:				
Land	\$ 1,631,073	\$ 905,703		\$ 2,536,776
Construction in progress	827,890	180,681		1,008,571
Total Nondepreciable Capital Assets	<u>2,458,963</u>	<u>1,086,384</u>	<u>\$ -</u>	<u>3,545,347</u>
Depreciable Capital Assets:				
Land improvements	861,675			861,675
Infrastructure	30,727,991			30,727,991
Buildings	5,947,976	50,689		5,998,665
Licensed vehicles	3,030,859	397,024		3,427,883
Machinery and equipment	2,706,813	340,381		3,047,194
Total Depreciable Capital Assets	<u>43,275,314</u>	<u>788,094</u>	<u>-</u>	<u>44,063,408</u>
Less: Accumulated Depreciation:				
Land improvements	(743,413)	(19,592)		(763,005)
Infrastructure	(17,957,235)	(472,739)		(18,429,974)
Buildings	(2,126,119)	(117,977)		(2,244,096)
Licensed vehicles	(1,916,187)	(201,069)		(2,117,256)
Machinery and equipment	(1,563,766)	(161,982)		(1,725,748)
Total Accumulated Depreciation	<u>(24,306,720)</u>	<u>(973,359)</u>	<u>-</u>	<u>(25,280,079)</u>
Depreciable Capital Assets, net	<u>18,968,594</u>	<u>(185,265)</u>	<u>-</u>	<u>18,783,329</u>
Governmental Activities Capital Assets, net	<u>\$ 21,427,557</u>	<u>\$ 901,119</u>	<u>\$ -</u>	<u>\$ 22,328,676</u>

**CITY OF UKIAH  
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<b>Business-Type Activities:</b>	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 4,673,811			\$ 4,673,811
Construction in progress	54,245,479	\$ 16,489,996		70,735,475
Total Nondepreciable Capital Assets	<u>58,919,290</u>	<u>16,489,996</u>	<u>\$ -</u>	<u>75,409,286</u>
<b>Depreciable Capital Assets:</b>				
Land improvements	1,962,582			1,962,582
Infrastructure	22,776,314	1,088,728		23,865,042
Buildings and improvements	56,681,933			56,681,933
Licensed vehicles	2,601,311			2,601,311
Machinery and equipment	5,332,223	161,137		5,493,360
Total Depreciable Capital Assets	<u>89,354,363</u>	<u>1,249,865</u>	<u>-</u>	<u>90,604,228</u>
<b>Less: Accumulated Depreciation:</b>				
Land improvements	(966,729)	(54,038)		(1,020,767)
Infrastructure	(11,039,823)	(477,190)		(11,517,013)
Buildings and improvements	(17,486,416)	(1,118,859)		(18,605,275)
Licensed vehicles	(1,623,414)	(182,097)		(1,805,511)
Machinery and equipment	(2,786,324)	(202,622)		(2,988,946)
Total Accumulated Depreciation	<u>(33,902,706)</u>	<u>(2,034,806)</u>	<u>-</u>	<u>(35,937,512)</u>
Depreciable Capital Assets, net	<u>55,451,657</u>	<u>(784,941)</u>	<u>-</u>	<u>54,666,716</u>
<b>Business-Type Activities Capital Assets, net</b>	<u><u>\$ 114,370,947</u></u>	<u><u>\$ 15,705,055</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 130,076,002</u></u>

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

<b>Governmental Activities:</b>	
General government	\$ 573,640
Public safety	215,741
Streets	101,407
Parks	71,980
Community development	10,591
Total Depreciation Expense - Governmental Activities	<u><u>\$ 973,359</u></u>
<b>Business-Type Activities:</b>	
Electric	\$ 912,453
Water	589,273
Sewer	385,276
Disposal site	12,748
Airport	66,053
Parking	5,325
Golf course	15,524
Conference center	48,154
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 2,034,806</u></u>

**Construction And Other Commitments**

The City has active construction projects as of June 30, 2009. The projects include expansion and upgrade of the water treatment plant and sewage treatment plant. The City has also entered into an agreement to develop new citywide financial software. At year-end the City's commitments with contractors are as follows:

	Expended To-Date	Remaining Commitment
Sewage treatment plant expansion	\$ 70,353,649	\$ 1,565,552

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
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**C) Interfund Receivables, Payables And Transfers**

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2009 is as follows:

Due To(From) Other Funds	Due From	Due To
General Fund	\$ 61,788	\$ 11,836
Electric Fund	61,762	
Nonmajor governmental funds		83,314
Nonmajor enterprise funds		62,390
Internal service fund	33,990	
Total Due To(From) Other Funds	<u>\$ 157,540</u>	<u>\$ 157,540</u>

Advances Due To(From) Other Funds	Due From	Due To
General Fund	\$ 1,025,276	\$ 17,389
Electric Fund	951,153	
Nonmajor governmental funds		1,243,743
Nonmajor business-type funds		794,779
Internal service fund	79,482	
Total Advances Due To(From) Other Funds	<u>\$ 2,055,911</u>	<u>\$ 2,055,911</u>

Long-term advances to the Ukiah Redevelopment Agency (RDA), a nonmajor governmental fund, from the General and Electric funds are due upon demand. The RDA is repaying the advances over the next five (5) years. The Liability Insurance Fund made a long-term advance to the General Fund that will be repaid over the next two (2) years. The General Fund and Liability Fund made advances to the Golf Fund to pay-off a capital lease. The advances will be repaid in annual installments ranging from \$40,000 to \$85,000 (plus applicable interest) through the year 2018, and \$62,390 has been classified as a current liability.

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$ 1,130,167	
Electric Fund		\$ 1,265,107
Nonmajor Special Revenue Funds	23,100	
Nonmajor Capital Projects Funds	150,000	38,150
Total Transfers In(Out)	<u>\$ 1,303,267</u>	<u>\$ 1,303,257</u>

The General Fund received \$1,071,250 from the Electric Fund representing payments in-lieu of taxes. An additional \$150,000 was transferred from the Electric Fund to a non-major capital projects fund to return a prior year transfer. The General Fund received \$15,060 from non-major capital projects funds for street-related projects, and \$43,857 from the Electric Fund for the Public Benefits Program.

A \$23,100 transfer was made from the Special Projects Fund (non-major capital projects fund) to the Special Revenue Fund (non-major special revenue fund) for grant matching purposes.

**D) Long-Term Debt**

**Revenue Bonds.** The City has issued bonds where the City pledges revenue derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, excluding an unamortized discount of \$256,257, at June 30, 2009 were as follows:



**CITY OF UKIAH  
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Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$ 13,735,000

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

Water Treatment Plant – Dated September 1, 2005 the original amount of the obligation was \$14,355,000 and is secured with a pledge of net revenues from the City's water system. The obligation principal is payable in annual installments beginning September 1, 2007 ranging from \$280,000 to \$845,000 through September 1, 2035. Interest payments commenced March 1, 2006 and are payable semiannually on September 1<sup>st</sup> and March 1<sup>st</sup>. At June 30, 2009 the installment obligation liability outstanding excluding the unamortized premium of \$107,044 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 13,785,000

Wastewater Treatment Plant – Dated March 1, 2006 the original amount of the obligation was \$75,060,000 and is secured with a pledge of net revenues from the City's wastewater system. The obligation principal is payable in annual installments beginning March 1, 2009 ranging from \$400,000 to \$4,690,000 through March 1, 2036. Interest payments commence September 1, 2006 and are payable semiannually on September 1<sup>st</sup> and March 1<sup>st</sup>. At June 30, 2009 the installment obligation liability outstanding excluding the unamortized premium of \$60,390 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 74,660,000

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

Water Treatment Plant – The maximum loan amount is \$3,599,009 and is payable over 30 years. At June 30, 2009, the balance of the loan was \$1,876,319. Principal and interest are payable semi-annually on April 1<sup>st</sup>, and October 1<sup>st</sup>, with the interest rate being 3.6024%. Loan payments will be made exclusively from revenues received from assessments and user charges of the treatment plant.

Wastewater Treatment Plant – The maximum loan amount is \$6,592,944, payable over 20 years. At June 30, 2009, the balance of the loan was \$2,653,780. Principal and interest are payable annually on April 15<sup>th</sup> with the interest rate being 3.0%.

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

**Landfill Closure And Postclosure Costs.** As more fully discussed in Note 5(D), long-term liabilities include \$8,409,211 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.

**CITY OF UKIAH**  
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Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
<b>Government Activities:</b>					
Tax Allocation Bonds	\$ 5,250,000		\$ 230,000	\$ 5,020,000	\$ 235,000
Deferred amounts:					
Issuance discounts	(65,057)		(3,717)	(61,340)	
Governmental Activities Long-Term Liabilities	<u>\$ 5,184,943</u>	<u>\$ -</u>	<u>\$ 226,283</u>	<u>\$ 4,958,660</u>	<u>\$ 235,000</u>
<b>Business-Type Activities:</b>					
Electric revenue bonds payable	\$ 14,830,000		\$ 1,095,000	\$ 13,735,000	\$ 1,165,000
Deferred amounts:					
Issuance discounts	(284,730)		(28,473)	(256,257)	
Net revenue bonds payable	<u>14,545,270</u>	<u>\$ -</u>	<u>1,066,527</u>	<u>13,478,743</u>	<u>1,165,000</u>
Installment obligations payable:					
Water treatment plant	14,075,000		290,000	13,785,000	300,000
Wastewater treatment plant	75,060,000		400,000	74,660,000	1,200,000
Deferred amounts:					
Issuance premiums	173,782		6,348	167,434	
Net installment obligations payable	<u>89,308,782</u>	<u>-</u>	<u>696,348</u>	<u>88,612,434</u>	<u>1,500,000</u>
State loans:					
Water Resources - Water Treatment	1,987,881		111,562	1,876,319	115,474
Water Resources - Sewer Treatment	2,990,071		336,291	2,653,780	346,380
Total State loans	<u>4,977,952</u>	<u>-</u>	<u>447,853</u>	<u>4,530,099</u>	<u>461,854</u>
Landfill closure and post-closure	<u>8,167,206</u>	<u>242,005</u>	<u>-</u>	<u>8,409,211</u>	<u>-</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 116,999,210</u>	<u>\$ 242,005</u>	<u>\$ 2,210,728</u>	<u>\$ 115,030,487</u>	<u>\$ 3,126,854</u>

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

Year Ended June 30,	Governmental Activities	
	Tax Allocation Bonds	
	Principal	Interest
2010	\$ 235,000	\$ 227,873
2011	250,000	214,535
2012	265,000	200,373
2013	275,000	185,522
2014	295,000	171,765
2015-2019	1,650,000	655,565
2020-2024	2,050,000	244,010
	<u>\$ 5,020,000</u>	<u>\$ 1,899,643</u>

**CITY OF UKIAH  
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Business-Type Activities

Year Ended June 30,	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,165,000	\$ 858,438	\$ 461,854	\$ 146,175	\$ 1,500,000	\$ 3,910,223
2011	1,240,000	785,625	476,443	131,587	1,910,000	3,850,023
2012	1,325,000	708,125	491,496	116,534	1,980,000	3,773,422
2013	1,410,000	625,312	507,028	101,001	2,045,000	3,694,122
2014	1,500,000	537,188	523,055	84,975	2,115,000	3,612,123
2015-2019	7,095,000	1,144,062	1,557,049	205,117	11,940,000	16,712,153
2020-2024			513,174	32,934	14,715,000	14,008,499
2025-2029					18,355,000	10,442,935
2030-2034					23,060,000	5,801,862
2035-2039					10,825,000	733,612
	<u>\$ 13,735,000</u>	<u>\$ 4,658,750</u>	<u>\$ 4,530,099</u>	<u>\$ 818,323</u>	<u>\$ 88,445,000</u>	<u>\$ 66,538,974</u>

**E) Segment Information**

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

**4) Other Information**

**A) Risk Management**

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

REMIF is a risk sharing, self-funded pool which is a direct purchase program. The REMIF cost sharing pool provides coverage between the City's deductible and \$500,000 (liability program) and \$1,000,000 (workers' compensation program). Losses in excess of the REMIF cost sharing pool limits are covered by REMIF through the California Joint Powers Risk Management Authority and commercial insurance policies. Losses limits are \$39,500,000 (liability), \$300,000,000 (property), \$21,245,000 (boiler and machinery), \$5,000,000 (auto) and \$3,000,000 (workers' compensation) – all per occurrence. Losses exceeding these limits are the responsibility of the City.

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

Separate internal service funds are maintained by the City for the City's deductibles and allocated share of pooled costs noted above. The total cash and investments held in these funds at June 30, 2009, was \$1,611,684 which management believes is adequate to finance the City's share of any losses.

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

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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**B) Related Organizations**

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

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

The City is currently involved in several hydroelectric, geothermal and other energy related projects as a member of this agreement. The NCPA is financed by contributions from member cities, government grants and debt. The City is committed to provide substantial additional financial support for its portion of the actions and projects of the NCPA. During the year ended June 30, 2009, the City paid \$10,450,849 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 December 31, 2009, the City's balance held in the reserve was \$6,758,513. Due to the nature of the reserve held by NCPA, payments made to the reserve are expensed as purchased power.

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

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

Redwood Empire Municipal Insurance Fund (REMIF) - A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and worker's compensation insurance. A Commission comprised of one member appointed by each member city administers the Authority. As explained previously, the City provides for its general and workers' compensation insurance needs through REMIF. Annual premiums paid to the Authority were \$1,239,848. During the year, the City received distribution from REMIF totaling \$146,520 for surplus funds within REMIF's liability insurance program.

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

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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

**C) Contingencies**

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

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

**D) Landfill Closure And Postclosure Costs**

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,409,211 (including \$834,673 for corrective action liability) as of June 30, 2009, 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, 2009, 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, 2009, held \$8,245,430 within its pooled investments designated for these purposes. The City has made a pledge of future service revenues for anticipated remaining expected costs, future inflation costs, and any additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example).

**E) Service Contracts**

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

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

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

**F) Employee Retirement Systems**

**Plan Description:**

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

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

**CITY OF UKIAH  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009**

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 2008/09 was 20.864% for miscellaneous employees, 28.583% for police, and 17.350% 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 2008/09 the City's annual pension cost was \$2,193,828 (\$1,382,771 for Miscellaneous, \$540,944 for Police and \$270,113 for Fire) and the City actually contributed \$2,193,828. In addition, the City paid \$957,189 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 2008/09 was determined as part of the June 30, 2006, actuarial valuation.

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

The actuarial value of the Plan's assets was determined using a 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. 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, 2009, the remaining average amortization period was 30 years for Miscellaneous, and 11 years for Police and 11 years for Fire.

Year Ending June 30,	Three-Year Trend Information			Percentage Contributed	Net Pension Obligation
	Annual Pension Cost				
	Miscellaneous	Police	Fire		
2007	\$ 1,235,510	\$ 546,847	\$ 176,915	100%	\$ -
2008	1,466,615	563,327	193,528	100%	-
2009	1,382,771	540,944	270,113	100%	-

**G) Deferred Compensation**

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

**H) Special Item – Transfer to Other Agency**

The City of Ukiah transferred \$1,900,000 from the Sewer Fund to the Ukiah Valley Sanitation District (UVSD) as part of establishing a rate stabilization fund for the UVSD.

## 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, 2009**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
<u>REVENUES</u>				<u>Positive</u>
				<u>(Negative)</u>
Taxes:				
Property	\$ 697,683	\$ 697,683	\$ 634,382	\$ (63,301)
Sales and use	6,966,740	6,966,740	6,439,622	(527,118)
Property transfer	32,744	32,744	42,863	10,119
Transient occupancy	742,500	742,500	710,053	(32,447)
Business license	336,122	336,122	284,797	(51,325)
Franchise	548,000	548,000	582,764	34,764
Licenses and permits	183,050	183,050	155,807	(27,243)
Fines, forfeitures, and penalties	51,600	51,600	82,078	30,478
From other agencies	1,234,084	1,234,084	1,308,568	74,484
Use of money and property	883,999	883,999	1,165,359	281,360
Charges for current services	873,225	873,225	896,255	23,030
Other	5,551	5,551	2,571	(2,980)
Total Revenues	<u>12,555,298</u>	<u>12,555,298</u>	<u>12,305,119</u>	<u>(250,179)</u>
<u>EXPENDITURES</u>				
Current:				
General government	2,016,011	2,038,244	1,695,361	342,883
Public safety	8,601,366	8,718,085	8,373,632	344,453
Public works	1,325,516	1,392,865	1,171,527	221,338
Parks and recreation	1,983,071	2,116,507	1,981,075	135,432
Community development	166,686	176,198	133,184	43,014
Debt service	12,552	12,552	1,065	11,487
Capital outlay	133,700	348,646	142,446	206,200
Total Expenditures	<u>14,238,902</u>	<u>14,803,097</u>	<u>13,498,290</u>	<u>1,304,807</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,683,604)</u>	<u>(2,247,799)</u>	<u>(1,193,171)</u>	<u>1,054,628</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,090,833	1,090,833	1,130,167	39,334
Transfers out	(200,000)	(200,000)	-	200,000
Total Other Financing Sources (Uses)	<u>890,833</u>	<u>890,833</u>	<u>1,130,167</u>	<u>239,334</u>
Net Change In Fund Balances	(792,771)	(1,356,966)	(63,004)	1,293,962
Fund Balances, July 1,	4,970,900	4,970,900	4,970,900	-
<b>Fund Balances, June 30,</b>	<b><u>\$ 4,178,129</u></b>	<b><u>\$ 3,613,934</u></b>	<b><u>\$ 4,907,896</u></b>	<b><u>\$ 1,293,962</u></b>



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

**Miscellaneous Plan Of The City Of Ukiah**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a Percentage of Covered Payroll [(B-A)/C]</b>
06/30/06	\$ 34,098,257	\$ 44,004,578	\$ 9,906,321	77.5%	\$ 6,168,697	160.6%
06/30/07	37,302,948	47,466,073	10,163,125	78.6%	6,716,418	151.3%
06/30/08	39,778,271	51,178,198	11,399,927	77.7%	7,612,226	149.8%

## OTHER COMPLIANCE REPORTS

CITY OF UKIAH  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<b><u>Department of Transportation</u></b>		
Airport Improvement Program: Project: 03-06-0268-10	20.106	\$ 43,775
<b>Total Department of Transportation</b>		<b><u>43,775</u></b>
<b><u>Department of Homeland Security</u></b>		
Federal Emergency Management Agency: Public Assistance Grant FEMA-1628-DR, 2005/2006 Winter Storms	97.036	179,094
<b>Total Department of Homeland Security</b>		<b><u>179,094</u></b>
<b>TOTALS</b>		<b><u>\$ 222,869</u></b>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
JUNE 30, 2009**

**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.

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

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

We have audited the basic financial statements of the 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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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



### Compliance

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

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

*Davis Hammon & Co.*

June 16, 2010

**CITY OF UKIAH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2009**

**A) Summary of Audit Results**

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements.
- 2) No control deficiencies were disclosed related to the audit of the basic financial statements of the City of Ukiah.
- 3) No instances of noncompliance material to the basic financial statements of the City of Ukiah were disclosed during the audit.
- 4) The City of Ukiah's total federal financial expenditures were less than \$500,000 and, therefore, a Single Audit was not required.

**B) Findings – Financial Statement Audit**

There were no findings of or questioned costs noted in the current year audit.

Status of prior year findings:

2008-1 Reconciliation of Pooled Cash and Investments

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

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

Current Status: City has implemented the recommendation and monthly reconciliations are being completed in a timely manner.



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 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, 2009. These procedures, which were agreed to by the City of Ukiah and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

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

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

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

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

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

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

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

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

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

*Davis Hammon & Co.*

June 16, 2010