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Members of the City Council Woodland, California

#### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Woodland, California (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Woodland California, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Community Development Block Grant Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, effective July 1, 2007, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 50, Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress as listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Certified Public Accountants

Macies Sini & O'Comett LLP

Sacramento, California January 26, 2009

#### MANAGEMENT'S DISCUSSION and ANALYSIS

This section of the City of Woodland's (City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2008. Please read this in conjunction with the transmittal letter, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

## FINANCIAL HIGHLIGHTS

- The City's total net assets increased over the course of the fiscal year by \$11.6 million to \$317.1 million. The net assets of governmental activities increased by \$11.0 million and the net assets of business-type activities increased by \$0.6 million.
- The General Fund, using the current financial resources basis, reported revenues in excess of expenditures and other financing sources and uses of \$0.4 million. The surplus was the result of savings in personnel services due to vacancies, as well as budgetary savings in services and supplies.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – (1) management's discussion and analysis, (2) the basic financial statements, (3) required supplementary information, and (4) optional combining statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds. The basic financial statements include two kinds of statements that present different views of the City.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- Fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - O Governmental fund statements depict how general government services such as police, fire and public works were financed in the short-term as well as what remains for future spending.
  - o Proprietary fund statements offer short-term and long-term financial information about the activities the City operates like businesses, such as utility services.
  - o Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by the Pension Plans' Schedule of Funding Progress, which is required supplementary information. In addition to these required elements, we have included combining statements that provide details about the City's non-major governmental funds, non-major enterprise funds, internal service funds and agency funds, each of which is presented in a column in the basic financial statements.

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, finance, community development, parks, recreation and community services, police, fire, library, and public works. The business-type activities of the City include water, sewer, storm drain, wastewater pretreatment, recycling, fire training, cemetery, Dubach Park, construction and demolition, and youth program.

The government-wide financial statements include not only the City itself (known as the primary government) but also the City of Woodland Redevelopment Agency (Agency), Woodland Public Facilities Corporation (Corporation), and the Woodland Finance Authority (Authority). Although legally separate from the City, the component units are blended with the primary government because of their governance or financial relationship to the City.

#### **FUND FINANCIAL STATEMENTS**

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories which include **governmental**, **proprietary** and **fiduciary** funds.

Governmental Funds. Governmental funds, which account for most of the City's basic services, are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Fund financial statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual and governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statements of revenues, expenditures and changes in fund balances for the General, City Capital Projects, Spring Lake Capital Projects, Special Sales Tax District, Sewer Development, Community Development Block Grant, Housing Assistance Grants and Redevelopment Agency Low/Mod Housing funds, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combing statements elsewhere in this report.

The City adopts an annually appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary Funds.** Proprietary funds are generally used to account for services for which the City charges customers—either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds.

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of its water, sewer, storm drain, wastewater pretreatment, recycling, fire training, cemetery, Dubach Park, construction and demolition and youth program activities.

Internal Service funds are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles and equipment, management information services, self-insurance and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

## **Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this section presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

## Combining Statements and Schedules

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

# City of Woodland Summary of Net Assets As of June 30, 2008 and 2007 (in millions)

		nmental ivities		ess-Type ivities	Total Gove	Total % Change	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Current & other assets	\$ 79.9	\$ 62.4	\$ 10.1	\$ 8.2	\$ 90.2	\$ 70.6	27.7%
Capital assets	<u>254,4</u>	248.8	<u>115.0</u>	<u>117.1</u>	<u>369.4</u>	<u> 365.9</u>	1.0%
Total assets	<u>334.3</u>	311.2	<u>125.1</u>	125.3	<u>459.6</u>	<u>436.5</u>	5.3%
Other liabilities	12.2	8.7	0.6	0.7	12.9	9.4	37.0%
Long-term Liabilities	<u>116.2</u>	107.5	<u>13.3</u>	<u>14.0</u>	<u>129.5</u>	<u>121.5</u>	6.6%
Total liabilities	<u>128.5</u>	<u>116.2</u>	<u>13.9</u>	<u>14.7</u>	<u>142.4</u>	<u>130.9</u>	8.7%
Net Assets: Invested in capital assets,							
net of related debt	153.4	159.8	101.9	104.4	255.3	264.2	-3.4%
Restricted	26.4	5.8	*** ***		26.4	5.8	355.2%
Unrestricted	<u> 26.1</u>	29.3	<u>9.3</u>	6.3	35.4	<u>35.6</u>	- <u>0.6</u> %
Total net assets	\$ <u>205.9</u>	\$ <u>194.9</u>	\$ <u>111.2</u>	\$ <u>110.7</u>	\$ <u>317.1</u>	\$ <u>305.6</u>	3.8%

#### ANALYSIS OF NET ASSETS

Net assets represent the difference between the City's resources and its obligations. Over time, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$317.1 million at the close of the fiscal year 2008.

The largest portion of the City's net assets reflects its \$255.3 million (81 percent) investment in capital assets (e.g. land, buildings and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Another portion of the City's net assets, \$26.4 million (8.3 percent) represents resources that are subject to external restrictions on how they may be used. This represents an increase of \$20.6 million or 355.2 percent from the prior year, due primarily to the issuance of the 2007 Tax Allocation Bonds and the 2007 Capital Projects Lease Revenue Bonds. The remaining balance of \$35.4 million represents unrestricted net assets.

Although net assets of business-type activities increased \$0.6 million, the City can generally only use these net assets to finance the continuing operations of the business-type activities.

#### **CHANGES IN NET ASSETS**

The City's overall net assets increased by \$11.6 million, from \$305.5 million in 2007 to \$317.1 million in 2008, which consisted of a \$11.0 million increase in governmental activities and a \$0.6 million increase in business-type activities.

Major reasons for these changes are noted in the government and business-type activities discussion below.

# City of Woodland Changes in Net Assets For the Years Ended June 30, 2008 and 2007 (in thousands)

	Govern Activ	mental vities		Business-type Total Primary Activities Government		Total %	
	2008	2007	2008	2007	2008	2007	change
Revenues Program revenues:							
Charges for services Operating grants and	\$ 28,956	\$ 27,033	\$ 16,964	\$ 14,890	\$ 45,920	\$ 41,923	9.53%
contributions Capital grants and	10,326	11,266	28	75	10,354	11,341	-8.70%
contributions General revenues:	1,976	1,508	-	-	1,976	1,508	31.03%
Property taxes	11,018	11,074		-	11,018	11,074	-0.51%
Sales taxes	9,427	9,526	-	**	9,427	9,526	-1.04%
Other taxes							
(including Measure H)	5,234	4,213	•	**	5,234	4,213	24.23%
Franchise fees	1,611	1,407		-	1,611	1,407	14.50%
Motor vehicle in lieu	4,280	4,108	-	-	4,280	4,108	4.19%
Investment earnings	2,311	1,598	748	644	3,059	2,242	36.44%
Other	1,261	399		-	1,261	399	216.04%
Total revenues	76,400	72,132	17,740	15,609	94,140	87,741	7.29%
Expenditures							
Governmental activities:							
General government	863	1,708	-	w	863	1,708	-49.47%
Finance	1,099	1,209	**	-	1,099	1,209	-9.10%
Community development Parks, recreation and	11,270	4,430	-	-	11,270	4,430	154.40%
community service	5,171	5,438	-	-	5,171	5,438	-4.91%
Police	14,832	13,959	-	-	14,832	13,959	6.25%
Fire	8,701	7,488	-	-	8,701	7,488	16.20%
Library	1,573	1,534	-	*	1,573	1,534	2.54%
Public works	18,744	12,205	***	-	18,744	12,205	53.58%
Interest on long-term debt	3,843	3,237	-		3,843	3,237	18.72%
Business-type activities:							
Water	-		5,795	4,600	5,795	4,600	25.98%
Sewer	-	-	7,975	6,354	7,975	6,354	25.51%
Storm drain	-	-	1,060	1,282	1,060	1,282	-17.32%
Wastewater pretreatment	-	***	326	304	326	304	7.24%
Recycling	_	-	227	268	227	268	-15.30%
Construction & Demolition	-	-	59	54	59	54	9.26%
Fire Training Center	-	_	395	301	395	301	31.23%
Cemetery	-	-	348	312	348	312	11.54%
Dubach Park	_	-	149	185	149	185	-19.46%
Youth Center	-	=	9		9	=	100.00%
Total Expenses	66,096	51,209	16,343	13,660	82,439	64,869	27.09%
Excess before transfers	10,304	20,923	1,397	1,949	11,701	22,872	-49.28%
Transfers	818	2,287	(818)	(2,287)	**,***	w. U pub.us	*2.2070
Changes in net assets	\$ 11,122	\$ 23,210	\$ 579	\$ (338)	\$ 11,701	\$ 22,872	-48.84%

Note: Certain amounts from prior years have been reclassified to conform to the current year presentation.

#### REVENUE

The City's total revenue was \$94.1 million for the year ended June 30, 2008, an increase of \$6.4 million or 7.3 percent from 2007. Revenue from governmental activities totaled \$76.4 million and revenue from business-type activities totaled \$17.7 million.

Charges for services and operating and capital grants provided 61 percent of the total revenue received during 2008, while taxes (property, sales and other) provided 28 percent of total revenue.

Increase in total revenue is due primarily to a \$4.0 million increase in charges for services, a \$1 million increase in other taxes and a \$1.9 million increase in other general revenues. The increase in charges for services stems primarily from scheduled rate increases of 14 percent and 18 percent in the Water and Sewer Enterprise Fund, respectively; other charges for services remained relatively flat throughout the remainder of the City. The increase in other taxes is a result of a full year of the ½ cent special sales tax within the City; only three quarters of the tax were included in FY07. In addition, new sales tax was generated with the opening of the Gateway retail center, anchored by Costco and Target. Other general revenues increased primarily from a \$1 million gain on the sale of the old senior center building, collection of a general city service charge, as well as payment from a developer in connection with an annexation agreement.

#### **EXPENSES**

Expenses of the City for the year totaled \$82.5 million, an increase of \$17.6 million or 27 percent over 2007. This increase is due primarily to increased salaries and benefits citywide, especially in public safety, pass thru expenditures for disbursement of housing grants, including a \$4 million grant for an affordable apartment complex, and increases in capital outlay for bond funded projects. Governmental activities expenses totaled \$66.2 million, or 80 percent of total expenses. Business-type activities incurred \$16.3 million, or 20 percent of total expenses during the year.

## **GOVERNMENTAL ACTIVITIES**

The following table shows the cost of each of the City's major functions and the net cost of those functions. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the functions.

# City of Woodland Net Cost of Governmental Activities As of June 30, 2008 and 2007 (in millions)

			Percent	Net Cost (I	Percent	
	Total Cost of Services		Change	Serv	ices	Change
	<u>2008</u>	<u> 2007</u>		<u>2008</u>	<u>2007</u>	
General Government	\$ 0.86	\$ 1.74	-50.6%	\$ (2.18)	\$ 0.23	-1,047.8%
Finance	1.11	1.17	~5.1%	0.83	0.82	1.2%
Community Development	11.27	4,43	154.4%	(0.51)	(3.09)	-83.5%
Parks, recreation and				, ,	, ,	
community	5.17	5.44	-5.0%	0.68	(0.37)	-283.8%
Service						
Police	14.83	13.96	6.2%	12.90	12.00	7.5%
Fire	8.70	7.49	16.2%	7.49	6.07	23.4%
Library	1.57	1.53	2.6%	1.09	1.00	9.0%
Public Works	18.74	12.21	53.5%	0.70	(8.50)	-108.2%
Interest on long term debt	3.84	3.24	18.5%	3.84	3.24	18.5%
Total	\$ 66.08	\$ 51.21		\$ 24.84	\$ 11.40	

The cost for all governmental activities this year was \$66.1 million. The City's taxpayers paid for approximately 39 percent of these costs; \$25.7 million. Fees, including developer fees, grants and contributions funded the balance of the costs of governmental activities.

Total cost of service increased primarily for the Public Works department due to increases in depreciation expense resulting from capitalization of large projects in the previous fiscal year, as well as a change in the City's capitalization threshold during FY08, which resulted in expenditure of items that would previously have been capitalized. The net benefit of Public Works in FY07 became a net cost to the City in FY08 due to stable levels of collection of development fees as well as increased expenditures discussed above. Net cost decreases for the Community Development is due primarily to disbursement of grant funds for various housing programs. The net benefit for Parks and Recreation in FY07 became a net cost in FY08 primarily because of significant capital outlay for the second phase of the Community Senior Center and the first phase of the new Sports Park complex. Increased personnel costs resulted in an increase in both total cost of service and net cost for the Police and Fire departments.

## **BUSINESS-TYPE ACTIVITIES**

Revenue for the City's business-type activities, excluding transfers, increased by \$2.1 million, from \$15.6 million in 2007 to \$17.7 million in 2008. This increase is due primarily to a scheduled increase in utility rates, which was effective July 1, 2007. Charges for services totaled \$17 million or 96 percent of total business-type activity revenues. Business-type activities expenses increased by \$2.6 million, from \$13.7 million in 2007 to \$16.3 million in 2008. The increase in expenses is attributable to increased salary and benefit costs for existing employees, addition of new staff, and increases in supplies and small equipment as a result of a change in the City's capital asset policy, which increased the capitalization threshold from \$1,000 to \$5,000. Depreciation expense also increased as a result of completion of capital projects. The costs of capital improvements are reported as capital assets in the statement of net assets, rather than as expenses in the statement of activities.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43.8 million, an increase of \$14.7 million from the end of the prior year.

Several of the governmental funds had significant net changes in fund balance, which include the following:

- City Capital Projects fund recorded a net increase in fund balance of \$3.36 million primarily as a result of collection of development impact fees for the commercial development known as the Gateway center, as well as Spring Lake residential development, including a 156 unit apartment complex; offset by capital outlay for various road development projects, construction of the Community Senior Center and rehabilitation of the City's cemetery.
- The fund balance of the Special Sales Tax District fund increased by \$3.07 million in FY08 due to receipt of \$9 million in bond proceeds from the new 2007 Capital Projects Lease Revenue Bonds, offset by capital expenditures on the second phase of the Community Senior Center and the first phase of the Sports Park complex. In addition, FY08 represents a full year of collection of the special tax, and only three quarters of activity were included in FY07.
- Community Development Block Grant Fund recorded a net decrease in fund balance of \$1.07 million primarily as a result of distribution of approximately \$1 million in Section 108 loan proceeds. This loan will now become the responsibility of the Woodland Redevelopment Agency Low /Mod Housing Fund.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$6.27 million, while total fund balance was \$7.5 million, an increase of \$0.3 million over the prior year. This was due mostly to one-time monies including \$500 thousand in proceeds for the sale of the old Senior Center building and a \$900 thousand transfer from the Equipment Service and Repair internal service

fund, which was returning accumulated contributions for future vehicle replacements that are not likely to occur for operational and budgetary reasons.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For 2008, the unreserved fund balance of \$6.27 million represents 16 percent of total general fund expenditures of \$39.7 million, and the total fund balance represents approximately 19 percent of that amount. For 2007, the general fund's unreserved fund balance of \$6.49 million was approximately 18 percent of the total expenditures of \$35.8 million, and the total fund balance \$7.2 million represented approximately 20 percent of expenditures.

## **Proprietary Funds**

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of fiscal year 2008, the unrestricted net assets for the Water and Sewer funds were \$7.05 million and \$10.03 million, respectively. Total net assets for the Water and Sewer funds increased by \$0.58 million and \$0.95 million, respectively, in FY08 due primarily to planned increases in the utility rates, which were effective July I, 2007.

Four proprietary funds had deficits in unrestricted net assets: Storm Drain fund had a deficit of \$9.3 million, Dubach Park had a deficit of \$0.58 million, the Cemetery Fund had a deficit of \$96 thousand and the Fire Training Center fund had a deficit of \$35 thousand. The internal service funds that are used to account for certain governmental activities had unrestricted net assets of \$2.5 million.

The total increase in net assets for the enterprise funds was \$0.58 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Storm Drain Fund's decrease in net assets is related to a continuing operating deficit. The City proposed a voter approved rate increase in FY08 to address this on-going deficiency, which did not pass. Operations have been reduced to the minimum legal level and the City will attempt another rate increase measure. Of concern, is the growing deficit in the Dubach Park enterprise fund; the yearly revenues generated by activities are insufficient to cover the maintenance of this sports park, due to weather-related and topographic factors. Phase 1 of the planned Sports Park, which will begin construction in FY08, will correct this issue and operations of the Dubach Park facility were ceased in FY08. The Woodland Cemetery has been undergoing a revitalization effort that will increase capacity and should allow the operations of the facility to be self supporting.

The following table shows actual revenues, expenses and results of operations (excluding capital contributions and expenses) for the current fiscal year in the City's proprietary funds (in millions):

# City of Woodland Proprietary Fund Operations For the Year Ended June 30, 2008

	Operating Revenues	Operating Expenses	Operating Income (Loss)	NonOperating Revenues (Expense)	Interfund Transfers	Change in Net Assets
Water	\$ 6.27	\$ 5.79	\$ 0.48	\$ 0.23	\$ (0.12)	\$ 0.59
Sewer	9.35	7.71	1.64	0.21	(0.90)	0.95
Storm Drain	0.19	1.06	(0.87)	-	-	(0.87)
Wastewater Pretreatment	0.40	0.33	0.07	0.01	-	0.08
Recycling	0.30	0.23	0.07	0.07	-	0.14
Construction & Demo	0.07	0.06	0.01	-	-	0.01
Fire Training Center	0.26	0.39	(0.13)	-	~	(0.13)
Cemetery	0.10	0.35	(0.25)	-	0.20	(0.05)
Dubach Park	0.01	0.14	(0.13)	(0.01)	-	(0.14)
Youth Program	0.01	0.01	-	· •	-	-
Total:	\$ 16.96	\$ 16.07	\$ 0.89	\$ 0.51	\$ (0.82)	\$ 0.58

## General Fund Budgetary Highlights

The City's final budgeted appropriations decreased by \$1.07 million from the preliminary budget due to reductions in discretionary expenses to help offset a projected revenue shortfall.

During the year, actual revenues and other resources were \$1.27 million less than budgeted estimates. This variance primarily consisted of a negative variance of \$1.5 million for taxes, resulting from a weakening housing market and general downturn in the economy through much of the fiscal year; charges for services had a positive variance due to increases in overhead cost recovery; the City's investment earnings were greater than budget due to better than anticipated return on various investments, and proceeds from the sale of the old Senior Center were received during the year, but not included in the budget.

The \$0.1 million variance between the final budget and actual expenditures (budgetary basis) is primarily due to the following factors:

- Salaries and benefits were over budget by \$728 thousand due primarily to larger than anticipated salary
  increases, primarily in the Fire department, as well as leave buy-outs that were not included in the budget.
- Budgetary savings citywide for supplies and services totaling \$1.1 million in contracts and professional
  services, travel, training and supplies due to a concerted effort to reduce discretionary expenditures through
  all departments in anticipation of a revenue shortfall.

The net effect of less than estimated revenues, as well as increased personnel costs resulted in a positive budgetary excess of revenues over expenditures of \$1.03 million at the end of the fiscal year.

In creating its budget for the year ending June 30, 2009, the City used an estimated budgetary fund balance of \$5.7 million.

#### CAPITAL ASSET & DEBT ADMINISTRATION

#### Capital Assets

As of June 30, 2008, the City had invested \$369 million in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads and water, sewer and storm drainage transmission and distribution systems. This represents a net increase for the current fiscal year of \$3.7 million, or 1 percent.

# City of Woodland Capital Assets As of June 30, 2008 and 2007 (net of depreciation, in millions)

	Governmental Activities		Business-Type Activities				Total			
		2008	2007		2008		2007	<del>-</del>	2008	2007
Capital Assets Not Being Depreciated										****
Land and improvements	\$	15.0	\$ 15.5	\$	3.7	\$	3.7		\$ 18.7	\$ 19.2
Construction in progress		46.0	85.2		10.1		11.6		56.1	96.8
Depreciable Capital Assets:										
Ponds		-			0.4		0.4		0.4	0.4
Buildings		62.8	19.6		0.1		0.1		62.9	19.7
Improvements		5.9	1.3		17.0		17.7		22.9	19.0
Machinery and equipment		7.8	7.7		1.0		1.0		8.8	8.7
Sewer treatment plant		-	***		8.8		9.2		8.8	9.2
Infrastructure		117.0	119.4		73.9		73.4		190.9	192.8
Total	\$	254.5	\$ 248.7	\$	115.0	\$	117.1	-	\$369.5	\$365.8

This year's major capital asset additions included:

- Completion of the first phase of the new Community & Senior Center added \$25 million to buildings.
- Expansion of the Wastewater Treatment Plant and tertiary improvements added \$18.8 million and \$4.8 million to buildings and improvements, respectively.
- Construction of the second phase of the Community & Senior Center project added \$3.6 million to Construction in Progress, and construction on the first phase of a new 40-acre Sports Park complex added \$4.5 million to Construction in Progress
- Construction of certain backbone infrastructure for the Spring Lake Specific Plan added \$4 million to construction in progress.
- Pavement rehabilitation and related water line replacement, sewer and storm line repairs added \$6.7 million to infrastructure.

More detailed information about the City's capital assets is presented in Note 8 of the Notes to the Financial Statements.

#### Long-term Debt

At June 30, 2008 and 2007, the City had \$127.8 million and \$119.5 million, respectively, in long-term debt outstanding. Outstanding debt of governmental activities increased approximately \$8.9 million. This increase resulted from several items: issuance of \$10.35 million in 2007 Capital Projects Lease Revenue Bonds, issuance of \$8.975 million in Woodland Redevelopment Agency 2007 Tax Allocation Bonds, and initiation of a new \$1.25 million loan with California Housing Finance Agency. These increases were offset by refunding \$2.06 million in 1996 Tax Allocation Bonds and principal reduction of \$6.47 million in Developer Fee Obligation. Outstanding debt of business-type activities decreased approximately \$0.6 million as a result of principal payments on existing debt during the fiscal year.

# City of Woodland Outstanding Debt As of June 30, 2008 and 2007 (in millions)

	Governmental Activities		]		ess-Type tivities	Total		
	200	<u>2007</u>	2	008	<u>2007</u>	2008	<u> 2007</u>	
Revenue and other bonds, net	\$ 58.	4 \$ 49.8	\$	10.1	\$ 10.1	\$ 68.5	\$ 59.9	
Tax allocation bonds Certificates of participation,	8.	8 2.1		H+-	-	8.8	2.1	
net	-	-		3.0	3.6	3.0	3.6	
Loans payable	6.	3 5.7		-	-	6.3	5.7	
Developer fee obligations	38.	9 45.3		-	-	38.9	45.3	
Capital lease obligations	2.	3 2.9		-	-	2.3	2.9	
Total	\$ 114.	7 \$105.8	\$	13.1	\$ 13.7	\$127.8	\$119.5	

More detailed information about the City's total long-term liabilities is presented in Note 9 of the Notes to Financial Statements.

The City continues to maintain excellent credit ratings on all of its debt issues. The following are the ratings at June 30, 2008 as determined by Moody's Investors Service and Standard & Poor's. These ratings have not changed subsequent to year-end.

Insured	l Issues:	Moody's	<u>S &amp; P</u>
•	2002 Lease Revenue Bonds	A3	AAA
•	2003 Gibson Ranch CFD		AAA
•	2004 Gibson Ranch Refunding Bonds		AAA

The City's bonded debt per capita is a useful indicator to citizens and investors of the City's debt position. As of June 30, 2008 the City had no bonded debt per capita. Bonded debt does not include special assessment debt or mortgage insured bonds for which the City is not obligated.

# ECONOMIC FACTORS & NEXT YEAR'S BUDGET

# **Economic Factors**

In light of the current downturn in the housing market, the City continues to face significant fiscal challenges. These include:

- The challenge of maintaining service levels in the context of continued growth in population and dwindling resources. Decreases in general revenues stemming from property and sales taxes in combination with continuing increases in personnel, benefit and utility costs present significant challenges for funding a balance of City services. Uncertainty surrounding receipt of money due from the State for operations of critical programs has also become a concern.
- The City's Storm Drain system continues to deteriorate, and it will require repairs and replacements in older areas of the City in the near future. The Storm Drain fund currently has a deficit in unrestricted net assets of \$9.3 million, with total net assets of \$11.2 million. Development fees pay for new construction only; maintenance impacts stemming from past and future new construction will continue to burden this fund. Storm drain rate increases must be voter approved and an attempt to increase the fee failed in August 2007. Council continues to have discussion regarding a future fee increase, but the operations have been reduced to the minimum legal level, and any operations in excess of current revenues have become a General Fund obligation.

Economic factors that may favorably affect the City in the longer term include:

- Construction of the Gateway project made great progress during FY08; this project, anchored by Costco
  and Target has helped generate new sales tax revenues and will ultimately aid area employment. Other
  retail stores and shops are planned to open will open in late FY09, including a Best Buy and Michael's
  store, which will likely improve sales tax revenues.
- It is hoped that the City Center Lofts project will invigorate the Woodland Downtown core area with
  mixed use projects such as retail businesses, more restaurants and loft residences. This would encourage
  residents to live and shop in a neighborhood setting, enhancing Woodland's Downtown revenues, and
  inviting new retail businesses to settle in the area.
- The Woodland Park Specific plan covers approximately 900 acres in the northeast industrial area of the
  City. Eventually the Plan will encourage diverse employment; it will include land for corporate campus,
  research and development, as well as current manufacturing and warehousing industries. It should set the
  stage for job growth for many years to come.

#### Next Year's Budget

The General Fund budget for 2009 appropriates \$44.1 million, a decrease of 2.3 percent from the prior year. General Fund revenue for 2009 is projected to be \$43.7 million, which is the same as the revenue budget for 2008.

#### 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 demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Woodland Department of Finance, 300 First Street, Woodland, California, 95695 or visit the City's web page at <a href="https://www.cityofwoodland.org">www.cityofwoodland.org</a>.