

**CITY OF UKIAH
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2012

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JUNE 30, 2012**

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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, 2012 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 of Ukiah's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above 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, 2012 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.

The Ukiah Redevelopment Agency was a component unit of the City of Ukiah. As explained further in Note 4(H) *Extraordinary Item – Successor Agency Trust For Assets of Former Redevelopment Agency*, the California State Legislature has enacted legislation that dissolved all redevelopment agencies in the State of California effective February 1, 2012. The City of Ukiah has elected to serve as the successor agency to the Ukiah Redevelopment Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 4 through 15 and 50 through 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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 combining fiduciary fund private-purpose fund statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is not a required part of the basic financial statements. The combining fiduciary fund private-purpose fund statements and schedule of expenditures of federal and other awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Davis Hammon & Co.

March 9, 2013

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, 2012. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2012, 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 2.2% to \$127,752 from \$124,972 a year ago.
- Governmental net assets ended the year at \$47,156 down 3.2% from \$48,715 in the prior year while net assets for Business Type activities were up 5.7% to \$80,596 from \$76,257 in 2011.
- Total tax revenue, other governmental revenues and business activity revenues exceeded expenses by \$2,781.
- General Fund expenditures exceeded revenues and other financing sources and uses by \$627.
- Total revenues from all sources were \$55,529 up 8.3% from \$51,261 in the prior year.
- The total cost of all activities was \$47,471, down from the prior year at \$49,120.

2. USING THIS ANNUAL REPORT

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

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

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

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

Each of these basic financial statements is further described below:

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

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

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

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

- **Governmental activities** - All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, sales taxes, Vehicle License Fees (VLF), ambulance fees, transient occupancy taxes, and franchise fees finance most of these activities.
- **Business (proprietary fund) type activities** - The City charges a fee to customers to cover all or most of the cost of the services provided. The City's utility services (water, sewer and electric), 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 (Agency). Although legally separate, this "component unit" was important because the City was financially accountable for it. Also, the city council members sat as the board of directors for the Ukiah Redevelopment Agency. The activities of the Agency through January 31, 2012, are reported in the City's special revenue, debt service and capital projects funds. The Agency was dissolved by the State of California legislature effective February 1, 2012. As part of the dissolution of the Agency, the City of Ukiah elected to serve as the Successor Agency of the Ukiah Redevelopment Agency. The activities of the Successor Agency are recorded in a Private Purpose Trust Fund (Schedules III and IV).

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

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

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

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

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

We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* through reconciling schedules. The bottom of the Balance Sheet on page 21 identifies the changes from accrual based net assets to financial-asset based fund balances. Page 23 identifies 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, 2012 and June 30, 2011.

Table 1
Summary of Net Assets
 For the Fiscal Years Ended June 30, 2012 and 2011
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	28,990	42,740	46,363	46,158	75,353	88,898
Capital assets	26,649	30,373	141,418	142,221	168,067	172,594
Total assets	55,639	73,113	187,781	188,379	243,420	261,492
Liabilities:						
Long-term debt outstanding	0	12,402	100,951	104,711	100,951	117,113
Other liabilities	8,483	11,996	6,234	7,411	14,717	19,407
Total liabilities	8,483	24,398	107,185	112,122	115,668	136,520
Net assets:						
Invested in capital assets net of debt	26,649	17,408	48,101	40,267	74,750	57,675
Restricted	3,086	17,276	4,129	2,172	7,215	19,448
Unrestricted	17,421	14,031	28,366	33,818	45,787	47,849
Total net assets	47,156	48,715	80,596	76,257	127,752	124,972

The City's combined net assets for the fiscal year ended June 30, 2012 were \$127,752. The City accounts for its utilities, including electric, water, and sewer as enterprise funds. The airport, parking district, solid waste disposal site, golf course, conference center, and street lighting system are also accounted for as enterprise funds. These enterprise funds are categorized as Business Activities on Table 1.

The City's net assets for governmental activities decreased 3% from \$48,715 to \$47,156, while business-type activities net assets increased 6% from \$76,257 to \$80,596. Legally unrestricted governmental net assets included assets in special revenue funds received for specific purposes and accumulated for capital projects.

The Electric Utility transferred \$1,066 to the General Fund as payment in lieu of taxes that would be charged to an outside provider. This amount is calculated at 7% of electric revenues.

In FY 2008-09 two Rate Stabilization Funds were created; one in the Sewer Enterprise (\$2,850 initial balance) and one for the Ukiah Valley Sanitation District (\$1,900 initial balance). In FY 2011-12, transfers were made to the Sewer Debt Service Fund from the City Rate Stabilization Fund (\$91) and from the Ukiah Valley Sanitation District Rate Stabilization Fund (\$94) to meet bond coverage requirements.

Table 2
Statement of Change in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	4,195	4,487	33,912	28,395	38,107	32,882
Operating grants and contributions	1,062	1,321	11	10	1,073	1,331
Capital grants and contributions	3,098	2,430			3,098	2,430
Other					-	-
Taxes	11,395	12,414			11,395	12,414
From other agencies not restricted to specific programs	1,239	1,312			1,239	1,312
Use of money and property	175	173	442	719	617	892
Total revenues	21,164	22,137	34,365	29,124	55,529	51,261
Expenses:						
General government	2,571	2,480			2,571	2,480
Public safety	9,827	9,595			9,827	9,595
Public works	2,206	3,098			2,206	3,098
Community Services (Parks & Rec.)	2,263	2,466			2,263	2,466
Community Development	1,224	3,599			1,224	3,599
Interest on long-term debt	420	451			420	451
Electric			13,980	12,859	13,980	12,859
Water			3,415	3,290	3,415	3,290
Sewer			8,244	8,329	8,244	8,329
Solid Waste Disposal Site (closed)			340	196	340	196
Street Lighting			220	182	220	182
Airport			1,312	1,124	1,312	1,124
Parking District			160	165	160	165
Golf Course			971	947	971	947
Conference Center			318	339	318	339
					-	-
Total expenses	18,511	21,689	28,960	27,431	47,471	49,120
Increase before Transfers	2,653	448	5,405	1,693	8,058	2,141
Special Item-transfer to other agency	(5,277)	(359)			(5,277)	(359)
Transfers	1,066	1,408	(1,066)	(1,408)	-	-
Change in Net Assets	(1,558)	1,497	4,339	285	2,781	1,782
Beginning Net Assets	48,714	46,670	76,257	75,972	124,971	122,642
Prior period adj	-	548			-	548
Net Assets-beginning restated	48,714	47,217	76,257	75,972	124,971	123,189
Ending Net Assets	47,156	48,715	80,596	76,257	127,752	124,972

Governmental Activities

Table 3 presents the cost of each of the City's major governmental programs for FY 2011-12 and FY 2010-11.

Table 3
Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2012 and 2011
(Full Accrual, in Thousands)

	Total Cost to Provide Services		Cost Change	Percentage Change
	2012	2011		
General Government	2,571	2,480	91	4%
Public Safety	9,827	9,595	232	2%
Public Works	2,206	3,098	(892)	-29%
Parks & Recreation	2,263	2,466	(203)	-8%
Community Development	1,224	3,599	(2,375)	-66%
Debt service interest	420	451	(31)	-7%
	18,511	21,689	(3,178)	-15%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total cost of governmental activities decreased by 15%. The decreases in Public Works, Parks & Recreation, Community Development and Debt Service were offset in part by increases in General Government and Public Safety. 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 reduction in Community Development costs reflects the dissolution of the Ukiah Redevelopment Agency.

The City's PERS retirement benefits costs increased by \$317 from 2011 to 2012 (to \$2,907 from \$2,590).

General government services, functions that support Public Safety and all the other City services, include the City Council, City Clerk, City Treasurer, Community Planning, and the City Manager's office as well as Finance, Administrative Services, Legal, and Human Resources.

Public Safety is the largest component of governmental activities. The majority of public safety cost is for personnel. Police salaries and overtime increased by \$76. Fire salaries and overtime increased by \$76.

Public Works primarily consists of engineering, streets, and public rights of way maintenance. Projects in FY 2011-12 included the completion of the right-turn lane and storm drain installation at the intersection of Perkins Street-Orchard Avenue and the upgrade of the underground utilities at the intersection of Gobbi Street and South State Street.

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.

Community Development is primarily grant-funded projects. FY 2011-12 expenses included \$838 for First Time Home Buyers and Owner Occupied Rehab and \$394 for the Community Food Bank. Dissolution of the Ukiah Redevelopment Agency reduced funding of Community Development by \$1,227.

Business Type Activities

The City's net assets for business-type activities in continuing operations resulted in a \$5,176 increase in net assets or 15% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$1,062 increase, or 4% in 2011. The Solid Waste Disposal Site was closed in 2001 and its current position is presented separately so as to not distort the results of continuing operations presented on Table 4.

Table 4
Statement of Operating Income and Expenses - Business Type Funds
 For the Fiscal Years Ended June 30, 2012 and 2011
(Full Accrual, in Thousands)

	Operating Expenses		Operating Revenue		Increase (decrease) From Operations			
	2012	2011	2012	2011	2012		2011	
Electric	13,980	12,859	16,157	15,315	2,177	13%	2,456	16%
Water	3,415	3,290	4,936	4,040	1,521	31%	750	19%
Sewer	8,244	8,329	9,786	6,423	1,542	16%	(1,906)	-30%
Street Lights	220	182	187	191	(33)	-18%	9	5%
Airport	1,312	1,124	1,447	994	135	9%	(130)	-13%
Parking	160	165	116	130	(44)	-38%	(35)	-27%
Golf Course	971	947	916	895	(55)	-6%	(52)	-6%
Conference Center	318	339	251	309	(67)	-27%	(30)	-10%
Total	28,620	27,235	33,796	28,297	5,176	15%	1,062	4%

Closed Program

Solid Waste Disposal Site	340	196	127	108	(213)	(88)
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Electricity purchase costs increased from \$6,517 last year to \$7,156 in FY 2011-12, while rates charged by the Utility were held constant. Purchase costs represented 51% of the Operating Expenses for FY 2011-12, the same percentage as FY 2010-11. Annual water revenue was up 22% from the prior year reflecting the increased water rates offset in part by increased operations and maintenance expenses.

The Conference Center was unable to fully fund its operating expenses, before depreciation, in FY 2011-12. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenue, but revenues continue to be impacted by the economic down turn.

The Solid Waste Disposal Site was closed in 2001 and State regulations require the site to be monitored for 30 years with funds set aside for closure expenses, 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. In FY 2011-12, this tax increased to \$2,229 from \$2,154. There was a decline in property tax received of \$1,243 primarily as a result of the dissolution of the Redevelopment Agency. The total decrease in governmental revenues was \$1,201 or 6%. 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, 2012 and 2011
(Modified Accrual Basis, Stated in Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2012	2011	2012	2011	2012	2011
Revenues:						
Taxes	9,372	9,074	1,969	3,197	11,341	12,271
Licenses and permits	435	345	-	-	435	345
Fines, forfeitures & penalties	47	59	223	236	270	295
From other Agencies	1,350	1,459	3,406	3,168	4,756	4,627
Use of money & property	856	941	228	323	1,084	1,264
Charges for current services	1,146	1,268	-	42	1,146	1,310
Other	5	1	371	496	376	497
Total revenues	13,211	13,147	6,197	7,462	19,408	20,609
Expenditures:						
Current	13,603	14,028	1,963	4,485	15,566	18,513
Debt Service	-	-	825	732	825	732
Capital Outlay	47	149	2,435	5,205	2,482	5,354
Total expenditures	13,650	14,177	5,223	10,422	18,873	24,599
Excess(Deficiency)of revenues over Expenditures	(439)	(1,030)	974	(2,960)	535	(3,990)
Other Financing Sources(Uses):						
Proceeds from bonds issued				8,181	-	8,181
Transfers In	1,066	1,030	7	3,018	1,073	4,048
Transfers Out			(7)	(2,390)	(7)	(2,390)
	1,066	1,030	-	8,809	1,066	9,839
Extraordinary Item:						
SERAF Payment				(359)	-	(359)
Dissolution of Redevelopment Agency			(12,331)		(12,331)	-
Net Change in Fund Balances	627	0	(11,357)	5,490	(10,730)	5,490
Fund Balances July 1	6,238	5,691	21,920	16,430	28,158	22,121
Prior Period Adj	0	547			-	547
Fund Balance July 1 restated	6,238	6,238	21,920	16,430	28,158	22,668
Fund Balances, June 30	6,865	6,238	10,563	21,920	17,428	28,158

Before the revenue from the additional 0.5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) decreased by 10%. The revenue from the additional 0.5% local sales tax increased by 3% from FY 2010-11 to FY 2011-12.

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

Other Governmental Funds Revenue from Other Agencies includes many government grants which vary dramatically from year to year. FY 2005-06 totaled \$1,138, increasing to \$2,516 for FY 2006-07, dropping to \$2,357 for FY 2007-08, to \$1,116 for FY 2008-09, then increasing to \$3,020 for FY 2009-10, then increasing to \$3,168 for FY 2010-11, and then again increasing this year to \$3,406. The largest components of this year's funding included \$600 for Park Development, \$838 from the HOME 4688 Grant for First Time Homebuyers and Owner Occupied Rehabilitation and \$394 for the Community Food Bank from a CDBG grant, \$500 for the Talmage Road relinquishment, \$304 for the Orchard Avenue right-turn lane and \$318 for the S. Dora Street rehabilitation.

Current General Fund expenditures decreased from \$14,028 to \$13,603. Other Governmental Funds saw a 56% decrease in expenditures, primarily in Current Expenditures for Community Development, as discussed in the Government Activities section. Total Governmental Fund expenditures decreased from \$24,599 in FY 2010-11 to \$18,873 in FY 2011-12, a 23% decrease.

The net change in fund balance in the General Fund for FY 2011-12 was \$627, as compared to a \$0 increase in FY 2010-11, reflecting the slightly improved revenues and decreased expenditures. The net change in fund balances for the Other Governmental Funds was a decrease of 307%, from \$5,490 in FY 2010-11, to \$(11,357) in FY 2011-12 due to the Extraordinary Item-Dissolution of the Ukiah Redevelopment Agency in the amount of (\$12,331).

5. GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues are \$763 over budget, a positive variance of 6%. Total tax revenues were 2% over budget, with property taxes down 3% and sales taxes over budget by 2%. The regular sales tax revenue was over budget by \$58 (1%), and the local one-half percent sales tax was over by \$74 (3%).

Total General Fund expenditures finished the year under budget by 2%, or \$285.

Before accounting for transfer activity there was a net positive variance of \$1,048. After transfers, the final positive variance in Fund Balance was \$1,092.

6. CASH MANAGEMENT

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

7. CAPITAL ASSETS

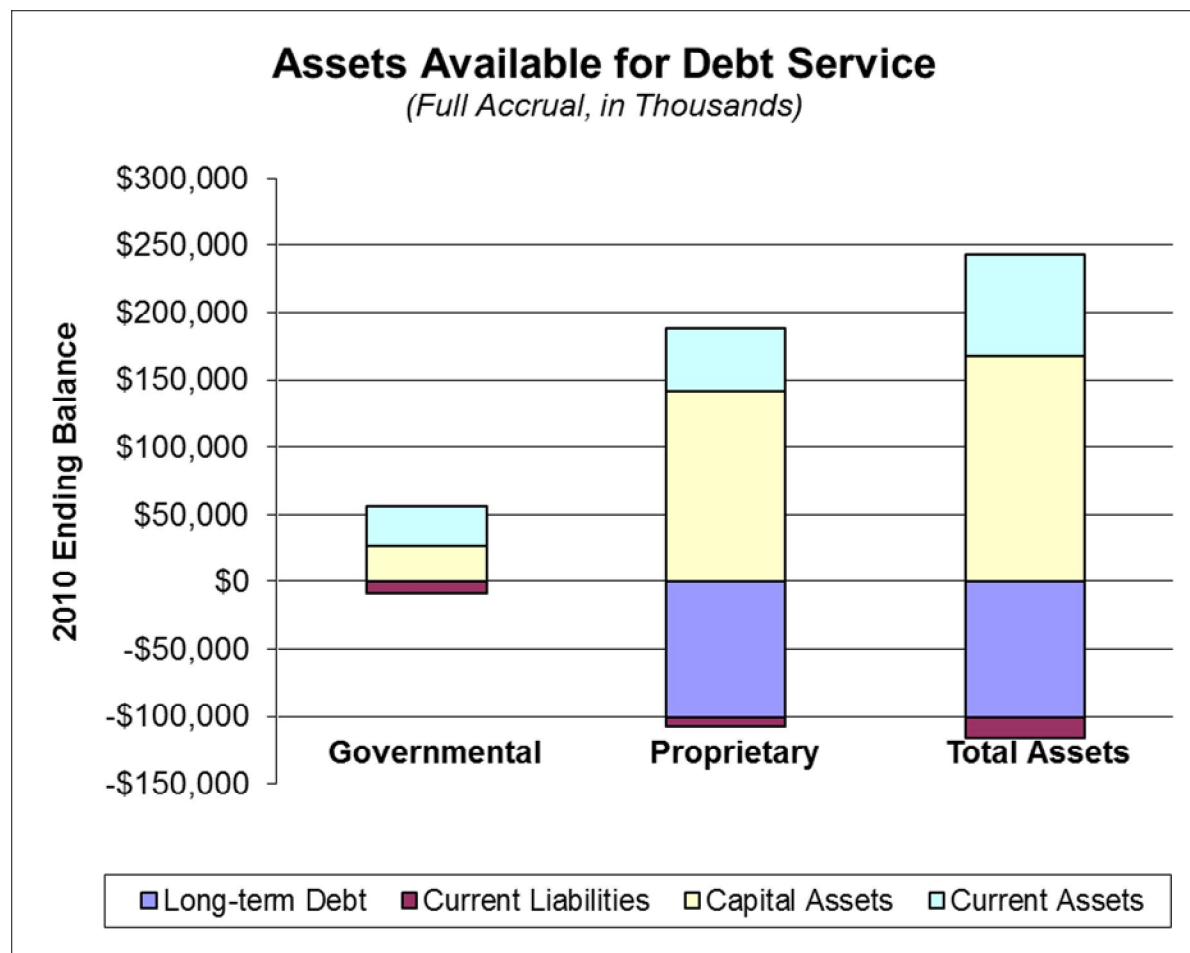
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2012, the value of capital assets of the governmental activities, net of accumulated depreciation, totaled \$26,649, and the value of capital assets of the business-type activities, net of accumulated depreciation, totaled \$141,418. Depreciation on capital assets is recognized in the Government-Wide financial statements but not in the General Fund statements.

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

8. CURRENT LIABILITIES AND LONG-TERM DEBT

At year-end, current governmental liabilities are \$8,483 and business-type liabilities are \$6,234. The City had governmental liabilities totaling \$8,483 and business-type liabilities of \$107,185. The primary change from the prior year is the elimination of \$12,402 of Redevelopment Agency long-term debt from the governmental liabilities. The \$100,951 of business-type debt includes the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total liabilities-to-net-assets ratio of 91%, down from 109% in FY 2010-11.



9. NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City General Fund Budget for FY 2012-13 increased expenditures by \$456 and reduced revenues by \$97 from the projected actuals for FY 2011-12. After these changes, the adopted General Fund FY 2012-13 budget showed a net decrease of \$988.

Budgeted Combined Public Safety and General Fund revenues for FY 2012-13 are \$643 above the actual revenues for FY 2011-12. The expenditures are \$1,192 above FY 2011-12 actual expenditures. These amounts include the revenue and expenditures related to the Measure "S" Sales Tax which is budgeted for FY 2012-13 with a \$38 increase over FY 2011-12 actual. The budget adopted for the combined Public Safety and General Funds for FY 2012-13 has a balance of (\$988). This is decrease from the positive balance of \$25 for FY 2011-12.

The Measure "S" Sales Tax revenues for FY 2012-13 are projected to be \$2,267. In the budget presentation, this revenue is combined with the General Fund in the "Combined Public Safety and General Fund Summary" and on other summary schedules. Public Safety (Police and Fire) expenditures of \$8,890 are budgeted in Public Safety Fund #105. The General Fund (#100) provides the additional funding necessary for the expenditures in excess of the revenue received from Measure "S" and grant funds recorded directly in the Public Safety Fund.

GOVERNMENTAL FUNDS

Based on the analysis of our sales tax consultants, the budget contains a projected sales tax increase of \$122 over the FY 2011-12 projected actual sales tax amount. The FY 2012-13 budget reflects another difficult year that local governments throughout California and the United States are facing.

Changes implemented with the adoption of the FY 2012-13 budget included reductions in force. The citywide full-time positions were reduced from 169 at the beginning of FY 2011-12 to 157 for FY 2012-13. The reduction in the FY 2011-12 workweek, from 40 hours to 36 hours, was a one year agreement. The agreements automatically returned the workweek to 40 hours as of July 2012. Further reductions in operating expenses will be required to achieve a balanced budget for FY 2013-14 as the continued economic climate restricts the recovery of City revenues. Uncertain financial conditions at the State level may have unknown fiscal impacts on the City.

Measure "S" Sales Tax: While this revenue source is part of the General Fund for budget purposes, it is internally recorded as a separate fund. The sales tax and interest revenue is projected to be \$2,267 for the FY2012-13 budget year. Expenditures are broken into two categories: Police Department and Fire Department. Budgeted expenditures are \$8,890. These expenditures are the entire 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. The General Fund Support projected for FY 2012-13 is \$6,540 or \$1,520 more than the amount initially committed by the City Council.

Park Development Fund: There are three projects in the capital account under Park Development. This includes construction in Riverside Park; Anton Stadium, and Observatory Park. Construction of the swimming pool, reimbursed through State Park Bond funds, park development fees, and private donations, was completed in this fiscal year.

ENTERPRISE FUNDS

Electric Utility: The Electric Utility expenditures are projected to increase slightly over the next year. One major project for the Electric Department, construction of the new Gobbi Street Substation, was completed during the fiscal year. A second major undertaking is the Pole Replacement Project. All electric poles have been tested and a priority list for replacement of defective poles has been established. Replacement began in FY2011-12 and will continue on an annual basis as identified on the priority list.

Water Operations: A five-year rate study was completed in 2010. The first scheduled increase became effective on August 1, 2010. Revenue for FY 2011-12 increased from \$4,036 to \$4,936. To help ensure an adequate supply of water for the City, Well #7 was completed in FY 2010-11 and Well #8 was put into production in FY 2011-12. The schedule of five annual rate increases is projected to meet debt revenue covenants. A rate increase of 10% went into effect July 2012 and an increase of 9% is scheduled for implementation in July 2013.

Wastewater Operations: A five-year rate study was completed in 2010. The first rate increase became effective in July 2011, with planned increases in each of the subsequent three years. The schedule of four annual rate increases is projected to meet debt revenue covenants. The multi-year wastewater treatment plant upgrade and capacity expansion project was completed in FY 2010-11. A major project for Wastewater Operations completed in FY 2011-12 was the addition of a lining to existing sewer lines and man holes, as necessary, to prevent the inflow of water into the collection system. In FY 2011-12, \$185,166 from rate stabilization funds was needed to meet debt revenue covenants. The City is beginning the process for updating the rate structure to meet revenue covenants in future years. A rate increase of 15.7% went into effect July 2012 and an increase of 3.5% is scheduled for implementation in July 2013.

Solid Waste: A review of the garbage rates was completed and new rates implemented in December 2010. In 2011 new contracts for curbside collection and for transfer station operation were completed. These contracts established new methods for revising fees based on a combination of the diesel fuel index, the consumer price index, fees and charges levied by other governments, and changes in the landfill charges for waste that is not recycled. These contracts extend for fifteen years and provide an option for an additional five years under certain conditions.

Ukiah Valley Conference Center: The Conference Center had net loss, before depreciation, of \$20, compared to a net gain of \$18 in FY 2010-11 and a net gain of \$11 for FY 2009-10. Income continues to be less than the depreciation expense. 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.

OTHER INFORMATION

Development: A proposed major retail development, of a Costco store in the City's Airport Business Park, is moving forward. The Costco Draft EIR was published in early 2013 and is expected to be considered for certification and the project acted on in the Summer of 2013.

City Operations: The Grace Hudson Museum was moved from the General Fund to a Special Revenue Fund for FY2012-13. The General Fund is contributing \$484 to establish the fund. This funding is the estimated operating expenses for three fiscal years. At the end of the three years, it is anticipated the operating expenses of the museum will be increasingly funded by the Grace Hudson Museum Guild and the Grace Hudson Endowment Fund. The amount of City contribution is subject to negotiation at that time. The goal is a self-sufficient museum operation which is fully funded outside of the City General Fund. Both the Guild and Endowment are organizations separate from the City of Ukiah. Changes in the operation of the Fire and Ambulance services are also being made in FY 2012-13. City firefighters and the Ukiah Valley Fire District personnel will operate together in a more integrated and collaborative service delivery model. Also the city will discontinue ambulance service and will continue to provide fire and advanced life support services with personnel staffing the fire response apparatus. Ambulance services will be provided by private ambulance service companies in the area, as determined by the County of Mendocino. As of July, 2012, Tayman Park Golf Group, Inc. assumed full lease and operation of the Ukiah Municipal Golf Course. Previously, the City maintained the golf course with City staff and Tayman managed the Pro-Shop and Customer Services. Under the new agreement, Tayman assumes responsibility for all course operations and maintenance and pays monthly fees to the City based on a gross revenue calculation.

REDEVELOPMENT AGENCY

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and X1 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the Agency. Assembly Bill X1 27 would have provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies, petitioning the California Supreme Court to overturn Assembly Bills X1 26 and X1 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the California Supreme Court issued a ruling upholding Assembly Bill X1 26, but striking down Assembly Bill X1 27. The ruling effectively eliminates all redevelopment agencies in the State of California. On February 1, 2012, all redevelopment agencies, including the Ukiah Redevelopment Agency, were dissolved. Assembly Bill X1 26 mandates the appointment of a successor agency to expeditiously complete the affairs of each dissolved redevelopment agency, and provides the successor agency with limited authority that extends only to the extent needed to complete redevelopment agency affairs.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those

assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The Ukiah City Council took action to become the “Successor Agency” to the Ukiah Redevelopment Agency and to retain the housing responsibility as provided in Assembly Bill X1 26. As the process of completing the activities of the Redevelopment Agency occurs and the uncertainties of how the State implementation of Assembly Bill X1 26 will affect successor agencies, the challenges the City of Ukiah will face will be determined. Initial, unanswered questions include the ability of the successor agency to construct projects using funds from the sale of bonds by the Redevelopment Agency.

On June 27, 2012, AB 1484 was signed by Governor Jerry Brown and took effect immediately. This legislation modified provisions of the laws governing redevelopment agency wind-down and dissolution. Included in the modifications was the requirement for new reports called due diligence reviews, long-range property management plan, and a list of housing assets. These reports and related actions are the responsibility of the Successor Agency to the Ukiah Redevelopment Agency. The Successor Agency has filed the reports required to date. Pursuant to the provisions of regulations, the non-cash housing assets were transferred to the City of Ukiah as the entity electing to retain the responsibility for performing housing functions.

As part of the wind-down process, the due diligence review for housing assets, identified \$1.8 million as available for redistribution to taxing entities. This amount was paid to Mendocino County for redistribution in November 2102 after final approval by the California Department of Finance.

SUMMARY

While facing ongoing General Fund budget deficits, the City continues to provide not only basic services, but also many quality-of-life services that enhance the community. City staff will continue to develop expenditure reduction plans during FY 2012-13 to realign revenues and expenditures. The City plans on utilizing General Fund reserves to finance operating expenses. Expenditure reductions, changes in fees and charges, and related organizational changes are expected to result in balanced budgets in the future. Sponsorships, donations, and fees-for-service cover many of our youth sports and recreational programs, as well as community events. Successful grant awards have assisted the City by providing the majority of funding for the new skateboard park and upgrades to the swimming pool facility and Anton Stadium. City staff 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 the City’s ability to provide Public Works upgrades to street and infrastructure systems. As growth in the surrounding unincorporated areas continues to impact City services, the need to prepare for possible service enhancements increases.

10. CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide 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, 2012**

<u>ASSETS</u>	Governmental Activities	Business-Type Funds	Total
Cash and investments	\$ 14,833,118	\$ 37,068,511	\$ 51,901,629
Receivables (net)	7,582,333	4,353,333	11,935,666
Internal balances	1,400,797	(1,400,797)	-
Restricted Assets:			
Cash with fiscal agent	2,731,391	4,107,234	6,838,625
Prepaid expenses	6,667		6,667
Deposits	760	4,830	5,590
Inventory		1,050,385	1,050,385
Land primarily held for resale	2,435,114		2,435,114
Deferred charges		1,179,845	1,179,845
Capital assets (net of accumulated depreciation)	26,649,167	141,417,666	168,066,833
Total Assets	55,639,347	187,781,007	243,420,354
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	2,050,441	952,798	3,003,239
Accrued interest payable		211,991	211,991
Liabilities payable from restricted assets		1,099,609	1,099,609
Unearned revenues - loans	3,997,816		3,997,816
Unearned revenues - real property held for resale	2,435,114		2,435,114
Customer deposits		7,262	7,262
Noncurrent Liabilities:			
Due within one year		3,962,024	3,962,024
Due in more than one year		100,951,348	100,951,348
Total Liabilities	8,483,371	107,185,032	115,668,403
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	26,649,167	48,101,086	74,750,253
Restricted for:			
Public safety	564,958		564,958
Streets and highways	2,518,126		2,518,126
Housing and community development	3,073		3,073
Debt service		4,128,472	4,128,472
Unrestricted	17,420,652	28,366,417	45,787,069
Total Net Assets	\$ 47,155,976	\$ 80,595,975	\$ 127,751,951

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

CITY OF UKIAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue And Changes In Net Assets		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 2,570,569	\$ 1,630,601	\$ -	\$ -	\$ (939,968)	\$ -	\$ (939,968)
Public safety	9,827,504	1,080,981	296,540		(8,449,983)		(8,449,983)
Public works	2,206,556	554,639	460,736	1,837,486	646,305		646,305
Parks and recreation	2,262,816	716,363	30,026	1,260,964	(255,463)		(255,463)
Community development	1,223,579	211,904	274,881		(736,794)		(736,794)
Debt service:							
Interest	420,132				(420,132)		(420,132)
Total Governmental Activities	<u>18,511,155</u>	<u>4,194,488</u>	<u>1,062,183</u>	<u>3,098,450</u>	<u>(10,156,034)</u>	<u>-</u>	<u>(10,156,034)</u>
Business-Type Activities:							
Electric	13,980,276	16,157,282				2,177,006	2,177,006
Water	3,414,760	4,935,691				1,520,931	1,520,931
Sewer	8,243,340	9,786,375				1,543,035	1,543,035
Disposal site	340,324	127,228				(213,096)	(213,096)
Street lighting	220,375	186,795				(33,580)	(33,580)
Airport	1,311,856	1,446,721				134,865	134,865
Parking	159,992	104,886	10,660			(44,446)	(44,446)
Golf course	970,421	915,672				(54,749)	(54,749)
Conference center	318,319	251,336				(66,983)	(66,983)
Total Business-Type Activities	<u>28,959,663</u>	<u>33,911,986</u>	<u>10,660</u>	<u>-</u>	<u>-</u>	<u>4,962,983</u>	<u>4,962,983</u>
Total	<u>\$ 47,470,818</u>	<u>\$ 38,106,474</u>	<u>\$ 1,072,843</u>	<u>\$ 3,098,450</u>	<u>(10,156,034)</u>	<u>4,962,983</u>	<u>(5,193,051)</u>
General Revenues:							
Taxes:							
Property					3,182,981		3,182,981
Sales and use					6,518,506		6,518,506
Property transfer					24,770		24,770
Transient occupancy					775,547		775,547
Business license					325,674		325,674
Franchise					567,486		567,486
From other agencies not restricted to specific programs					1,238,660		1,238,660
Use of money and property					175,318	441,974	617,292
Transfers					1,065,910	(1,065,910)	-
Total General Revenues, Special Items And Transfers					<u>13,874,852</u>	<u>(623,936)</u>	<u>13,250,916</u>
Extraordinary item: Dissolution of Ukiah Redevelopment Agency					<u>(5,277,260)</u>		<u>(5,277,260)</u>
Change In Net Assets					<u>(1,558,442)</u>	<u>4,339,047</u>	<u>2,780,605</u>
Net Assets - beginning					48,714,418	76,256,928	124,971,346
Net Assets - Ending					<u>\$ 47,155,976</u>	<u>\$ 80,595,975</u>	<u>\$ 127,751,951</u>

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

CITY OF UKIAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 5,824,291	\$ 7,942,453	\$ 13,766,744
Cash with fiscal agent - restricted		2,731,391	2,731,391
Receivables:			
Accounts (net)	1,364,358	197,384	1,561,742
Property taxes	206,106		206,106
Interest	211,315		211,315
Grants	7,332	1,503,592	1,510,924
Loans	6,522	3,997,816	4,004,338
Prepaid expenses	5,167	1,500	6,667
Due from other funds	74,870		74,870
Advances due from other funds	559,134		559,134
Land primarily held for resale		2,435,114	2,435,114
Total Assets	\$ 8,259,095	\$ 18,809,250	\$ 27,068,345
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 295,549	\$ 586,257	\$ 881,806
Accrued salaries and benefits	253,637	2,279	255,916
Accrued compensated absences	647,918		647,918
Contract retentions payable		10,331	10,331
Deferred revenues	197,082	1,050,894	1,247,976
Deferred revenues - loans		3,997,816	3,997,816
Deferred revenues - land primarily held for resale		2,435,114	2,435,114
Due to other funds		163,410	163,410
Total Liabilities	1,394,186	8,246,101	9,640,287
Fund Equity:			
Fund Balance:			
Non-spendable	559,134		559,134
Restricted		5,867,124	5,867,124
Committed		1,235,785	1,235,785
Assigned	4,851,110	3,460,240	8,311,350
Unassigned	1,454,665		1,454,665
Total Fund Balances	6,864,909	10,563,149	17,428,058
Total Liabilities And Fund Balances	\$ 8,259,095	\$ 18,809,250	\$ 27,068,345

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, 2012**

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

Total Fund Balances	\$ 17,428,058
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	54,228,215
Less: Accumulated depreciation	(27,989,203)
Liabilities were reported for certain revenues that were not available to pay current period expenditures, and , therefore deferred in the funds.	
Deferred revenues - unearned	1,247,976
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.	2,240,930
Net Assets Of Governmental Activities	<u><u>\$ 47,155,976</u></u>

CITY OF UKIAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Taxes:			
Property	\$ 1,213,479	\$ 1,969,502	\$ 3,182,981
Sales and use	6,465,410		6,465,410
Property transfer	24,770		24,770
Transient occupancy	775,547		775,547
Business license	325,674		325,674
Franchise	567,486		567,486
Licenses and permits	434,492		434,492
Fines, forfeitures, and penalties	46,960	223,508	270,468
From other agencies	1,350,289	3,405,749	4,756,038
Use of money and property	856,146	227,539	1,083,685
Charges for current services	1,146,590		1,146,590
Other	4,498	370,605	375,103
Total Revenues	<u>13,211,341</u>	<u>6,196,903</u>	<u>19,408,244</u>
<u>EXPENDITURES</u>			
Current:			
General government	1,817,593	43,599	1,861,192
Public safety	8,660,148	336,633	8,996,781
Street and roads	1,087,896	420,802	1,508,698
Parks and recreation	1,970,035	78,259	2,048,294
Community development	67,839	1,083,545	1,151,384
Debt service:			
Principal		265,000	265,000
Interest	38	559,759	559,797
Capital outlay	46,593	2,435,078	2,481,671
Total Expenditures	<u>13,650,142</u>	<u>5,222,675</u>	<u>18,872,817</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(438,801)</u>	<u>974,228</u>	<u>535,427</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	1,065,910	6,500	1,072,410
Transfers out		(6,500)	(6,500)
Total Other Financing Sources (Uses)	<u>1,065,910</u>	<u>-</u>	<u>1,065,910</u>
Extraordinary item: Dissolution of Ukiah Redevelopment Agency		(12,331,505)	(12,331,505)
Net Change In Fund Balances	<u>627,109</u>	<u>(11,357,277)</u>	<u>(10,730,168)</u>
Fund Balances, July 1,	6,237,800	21,920,426	28,158,226
Fund Balances, June 30,	<u>\$ 6,864,909</u>	<u>\$ 10,563,149</u>	<u>\$ 17,428,058</u>

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, 2012**

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

Net change in fund balances - total governmental funds	\$ (10,730,168)
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Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay	2,481,671
Depreciation	(1,167,225)
Contributed capital asset	47,560

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

Principal Repayments:	
Ukiah Redevelopment Agency loan payments	265,000

Revenues not available to pay current expenditures are deferred in the funds:

Deferred revenues - unearned	450,483
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as an expenditures in governmental funds

Accrued interest on long-term debt	161,034
Amortize bond issue costs	(10,541)
Amortize bond discounts	(10,828)

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

	(99,673)
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The extraordinary loss reported on the governmental fund financial statements as the result of the dissolution of the Ukiah Redevelopment Agency is a different amount than reported on the government-wide statements. The transfer of the net capital assets and long-term debt to the Ukiah Successor Agency private-purpose trust fund does not affect governmental fund financial statements:

Extraordinary item: Dissolution of Ukiah Redevelopment Agency	7,054,245
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Change In Net Assets Of Governmental Activities

	<u>\$ (1,558,442)</u>
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**CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

<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	\$ 8,776,127	\$ 1,901,115	\$ 16,929,950	\$ 8,846,701	\$ 614,618	\$ 37,068,511	\$ 1,066,374
Receivables:							
Accounts (net)	1,427,924	243,539	118,628	10,823	147,234	1,948,148	87,908
Unbilled	1,366,693	588,323	433,300		16,869	2,405,185	
Due from other funds							371,453
Deposits		4,030			800	4,830	760
Inventory	963,092	87,293				1,050,385	
Total Current Assets	12,533,836	2,824,300	17,481,878	8,857,524	779,521	42,477,059	1,526,495
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	4,107,227		7			4,107,234	
Other Noncurrent Assets:							
Advances due from other funds							558,750
Unamortized capital debt issue costs	86,576	367,485	725,784			1,179,845	
Capital Assets:							
Land	1,403,672	70,126	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	11,839,602	7,209,823	81,830,254		1,233,407	102,113,086	
Buildings and improvements	25,437,975	18,130,288	10,179,727		2,943,142	56,691,132	327,113
Licensed vehicles	1,307,448	373,625	510,766	101,296	176,707	2,469,842	26,574
Machinery and equipment	2,687,170	1,999,989	1,493,153	404,039	395,826	6,980,177	447,096
Less: Accumulated depreciation	(21,613,083)	(7,909,773)	(11,246,520)	(331,039)	(3,886,077)	(44,986,492)	(390,628)
Construction in progress	6,406,671	1,870,482	2,352,040		884,335	11,513,528	
Total Noncurrent Assets	31,699,009	22,241,251	86,635,932	873,950	5,254,603	146,704,745	968,905
Total Assets	44,232,845	25,065,551	104,117,810	9,731,474	6,034,124	189,181,804	2,495,400

continued

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

CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts payable	54,854	130,553	129,617	7,824	142,458	465,306	125,495
Accrued salaries and benefits	45,597	20,973	31,519	285	15,881	114,255	39,553
Accrued compensated absences	142,336	49,889	102,841	675	39,908	335,649	89,422
Contract retentions payable		6,016	31,572			37,588	
Accrued interest payable		199,706	9,895		2,390	211,991	
Customer deposits					7,262	7,262	
Due to other funds		186,250			96,663	282,913	
Current portion of long-term debt		453,525	2,098,499			2,552,024	
Total Current Liabilities	242,787	1,046,912	2,403,943	8,784	304,562	4,006,988	254,470
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,410,000					1,410,000	
Accrued interest payable	52,109		1,047,500			1,099,609	
Total Current Liabilities Payable From Restricted Assets	1,462,109	-	1,047,500	-	-	2,509,609	-
Noncurrent Liabilities:							
Advances from other funds		558,750			559,134	1,117,884	
Installment obligation (net of unamortized discount)		12,624,791	68,533,596			81,158,387	
State loans payable		1,388,758	1,204,655			2,593,413	
Revenue bonds payable (net of unamortized discount)	8,424,162					8,424,162	
Estimated landfill closure costs				8,775,386		8,775,386	
Total Noncurrent Liabilities	8,424,162	14,572,299	69,738,251	8,775,386	559,134	102,069,232	-
Total Liabilities	10,129,058	15,619,211	73,189,694	8,784,170	863,696	108,585,829	254,470
NET ASSETS							
Invested in capital assets, net of related debt	17,671,044	7,406,692	17,513,391	873,950	4,636,009	48,101,086	410,155
Restricted for debt service	4,055,118			73,354		4,128,472	
Unrestricted	12,377,625	2,039,648	13,414,725		534,419	28,366,417	1,830,775
Total Net Assets	\$ 34,103,787	\$ 9,446,340	\$ 30,928,116	\$ 947,304	\$ 5,170,428	\$ 80,595,975	\$ 2,240,930

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, 2012

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES</u>							
Charges for current services	\$ 16,156,628	\$ 4,935,691	\$ 9,181,185	\$ 120,087	\$ 2,743,035	\$ 33,136,626	\$ 2,721,415
Licenses and permits					66,638	66,638	
Fines, forfeitures and penalties					38,248	38,248	
Other revenues	654		2,698	7,141	57,489	67,982	868,610
Total Operating Revenues	<u>16,157,282</u>	<u>4,935,691</u>	<u>9,183,883</u>	<u>127,228</u>	<u>2,905,410</u>	<u>33,309,494</u>	<u>3,590,025</u>
<u>OPERATING EXPENSES</u>							
Purchased power	7,156,128					7,156,128	
Operations	2,880,036	723,203	1,437,651	26,240	1,482,493	6,549,623	2,127,970
Maintenance		531,624	605,645	292,052	99,527	1,528,848	33,456
Fuels and lubricants					793,143	793,143	11,118
Utilities		305,351	316,568	9,284	316,823	948,026	16,284
General and administration	2,242,873	614,070	685,737		147,775	3,690,455	214,229
Insurance premiums and deductibles							1,277,101
Depreciation	951,700	591,947	1,914,112	12,748	129,202	3,599,709	33,931
Total Operating Expenses	<u>13,230,737</u>	<u>2,766,195</u>	<u>4,959,713</u>	<u>340,324</u>	<u>2,968,963</u>	<u>24,265,932</u>	<u>3,714,089</u>
Operating Income	<u>2,926,545</u>	<u>2,169,496</u>	<u>4,224,170</u>	<u>(213,096)</u>	<u>(63,553)</u>	<u>9,043,562</u>	<u>(124,064)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>							
Taxes					10,660	10,660	
From(To) other agencies			602,492			602,492	
Interest income	172,177	7,818	163,141	88,840	9,998	441,974	24,391
Interest expense and fiscal charges	(749,539)	(648,565)	(3,283,627)		(12,000)	(4,693,731)	
Total Nonoperating Revenues (Expenses)	<u>(577,362)</u>	<u>(640,747)</u>	<u>(2,517,994)</u>	<u>88,840</u>	<u>8,658</u>	<u>(3,638,605)</u>	<u>24,391</u>
Income Before Special Items And Transfers	2,349,183	1,528,749	1,706,176	(124,256)	(54,895)	5,404,957	(99,673)
Transfers out	(1,065,910)					(1,065,910)	
Change In Net Assets	<u>1,283,273</u>	<u>1,528,749</u>	<u>1,706,176</u>	<u>(124,256)</u>	<u>(54,895)</u>	<u>4,339,047</u>	<u>(99,673)</u>
Total Net Assets - beginning	32,820,514	7,917,591	29,221,940	1,071,560	5,225,323	76,256,928	2,340,603
Total Net Assets - ending	<u>\$ 34,103,787</u>	<u>\$ 9,446,340</u>	<u>\$ 30,928,116</u>	<u>\$ 947,304</u>	<u>\$ 5,170,428</u>	<u>\$ 80,595,975</u>	<u>\$ 2,240,930</u>

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

**CITY OF UKIAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:							
Receipts from customers and users	\$ 16,211,611	\$ 4,778,363	\$ 9,088,161	\$ 127,257	\$ 2,863,551	\$ 33,068,943	\$ 70,645
Receipts from interfund services provided							3,513,088
Payments to suppliers	(11,499,905)	(1,323,975)	(1,744,494)	(142,907)	(2,271,300)	(16,982,581)	(2,377,876)
Payments to employees	(1,734,431)	(676,723)	(940,387)	(5,082)	(522,171)	(3,878,794)	(1,312,000)
Payments for interfund services provided	(536,398)	(253,289)	(312,872)	(226)	(130,600)	(1,233,385)	
Net Cash Provided (Used) By Operating Activities	<u>2,440,877</u>	<u>2,524,376</u>	<u>6,090,408</u>	<u>(20,958)</u>	<u>(60,520)</u>	<u>10,974,183</u>	<u>(106,143)</u>
Cash Flows From Noncapital Financing Activities:							
Property taxes and subventions					10,653	10,653	
From(To) other agencies			17,174			17,174	
Advances from(to) other funds	885,687					885,687	5,191
Transfers in(out)	(1,065,910)					(1,065,910)	
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(180,223)</u>	<u>-</u>	<u>17,174</u>	<u>-</u>	<u>10,653</u>	<u>(152,396)</u>	<u>5,191</u>
Cash Flows From Capital and Related Financing Activities:							
Acquisition and construction of capital assets	(1,637,808)	(83,969)	(953,783)			(2,675,560)	(33,869)
Principal paid on capital debt	(1,325,000)	(443,899)	(2,027,475)			(3,796,374)	
Interest paid on capital debt	(708,125)	(644,470)	(3,279,654)		(12,000)	(4,644,249)	
Trustee fees	(5,413)					(5,413)	
From other agencies			585,318			585,318	
Advances from(to) other funds					(59,461)	(59,461)	(43,000)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(3,676,346)</u>	<u>(1,172,338)</u>	<u>(5,675,594)</u>	<u>-</u>	<u>(71,461)</u>	<u>(10,595,739)</u>	<u>(76,869)</u>
Cash Flows From Investing Activities:							
Interest on investments	172,177	7,818	163,141	88,840	9,998	441,974	24,391
Net Cash Provided (Used) By Investing Activities	<u>172,177</u>	<u>7,818</u>	<u>163,141</u>	<u>88,840</u>	<u>9,998</u>	<u>441,974</u>	<u>24,391</u>
Net Increase (Decrease) In Cash	(1,243,515)	1,359,856	595,129	67,882	(111,330)	668,022	(153,430)
Cash Balance - beginning	14,126,869	541,259	16,334,828	8,778,819	725,948	40,507,723	1,219,804
Cash Balance - ending	<u>\$ 12,883,354</u>	<u>\$ 1,901,115</u>	<u>\$ 16,929,957</u>	<u>\$ 8,846,701</u>	<u>\$ 614,618</u>	<u>\$ 41,175,745</u>	<u>\$ 1,066,374</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, 2012**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Reconciliation of Cash Balance:							
Cash	\$ 8,776,127	\$ 1,901,115	\$ 16,929,950	\$ 8,846,701	\$ 614,618	\$ 37,068,511	\$ 1,066,374
Restricted cash with fiscal agent	4,107,227		7			4,107,234	
Cash Balance - ending	\$ 12,883,354	\$ 1,901,115	\$ 16,929,957	\$ 8,846,701	\$ 614,618	\$ 41,175,745	\$ 1,066,374
Reconciliation of Operating Income To Net Cash							
Provided (Used) By Operating Activities:							
Operating income (loss)	\$ 2,926,545	\$ 2,169,496	\$ 4,224,170	\$ (213,096)	\$ (63,553)	\$ 9,043,562	\$ (124,064)
Adjustments to Reconcile Operating Income To Net Cash							
Provided (Used) By Operating Activities:							
Depreciation	951,700	591,947	1,914,112	12,748	129,202	3,599,709	33,931
Decrease (Increase) in receivables	54,329	(157,328)	(95,722)	29	(41,859)	(240,551)	11,312
Decrease (Increase) in inventory	(170,104)	(16,099)				(186,203)	
Decrease (Increase) in deposits		(850)				(850)	
Decrease (Increase) in payables	(1,321,593)	(68,062)	47,848	179,361	(84,310)	(1,246,756)	(27,322)
Amortization		5,272				5,272	
Net Cash Provided (Used) By Operating Activities	\$ 2,440,877	\$ 2,524,376	\$ 6,090,408	\$ (20,958)	\$ (60,520)	\$ 10,974,183	\$ (106,143)
Non-Cash Transactions:							
Amortize capital debt issue costs	\$ 14,429	\$ 18,834	\$ 30,667			\$ 63,930	
Amortize capital debt discount (premium)	28,473	(4,084)	(2,265)			22,124	
Accrue additional landfill closure/postclosure costs				\$ 180,164		180,164	

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

**CITY OF UKIAH
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Private Purpose Trust	Agency Funds
<u>ASSETS</u>		
Assets:		
Cash and investments	\$ 12,063,468	\$ 5,462,528
Cash with fiscal agent	1,371,709	
Receivables:		
Accounts (net)	52,288	228,648
Unbilled		178,781
Property tax	855,030	
Deferred charges	970,741	
Real property held primarily for resale	3,730,238	
Capital assets	142,294	
 Total Assets	 19,185,768	 \$ 5,869,957
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable	\$ 1,411,763	\$ 54,669
Accrued salaries and benefits	282,919	
Utility and other deposits	1,203,705	
Accrued interest payable	144,628	
Deferred revenues	705,126	
Due to County of Mendocino	1,789,918	
Due to Ukiah Valley Sanitation District		5,182,044
Due to Solid Wastes Systems		550,600
Due to Russian River JPA		82,644
Noncurrent Liabilities:		
Due within one year	855,000	
Due in more than one year	11,565,465	
 Total Liabilities	 17,958,524	 \$ 5,869,957
<u>NET ASSETS</u>		
Held in trust for other purposes	\$ 1,227,244	

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, 2012**

	<u>Private Purpose Trust</u>
<u>Additions</u>	
Taxes	\$ 1,545,714
Use of money and property	10,118
Other revenues	2,868
Total Additions	<u>1,558,700</u>
<u>Deductions</u>	
Salaries and benefits	451,196
Operating expenses	114,750
Contractual services	87,241
Governmental services	12,242
Payments to other governmental entities	3,680,630
Net decrease in asset values	1,212,813
Debt Service:	
Interest and fiscal charges	389,086
Total Deductions	<u>5,947,958</u>
Extraordinary item: Dissolution of Ukiah Redevelopment Agency	5,277,260
Change in net assets	888,002
Net Assets - beginning	339,242
Net Assets - ending	<u><u>\$ 1,227,244</u></u>

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 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.

Through January 31, 2012, the Ukiah Redevelopment Agency (Agency), established in 1974, was a community redevelopment agency formed, organized and existing pursuant to the provisions of Part I of Division 24 (commencing with Section 33000) of the State of California Health and Safety Code. As explained in Note 4(H), the Agency was dissolved by the State of California legislature effective February 1, 2012. The Agency was governed by a Commission comprised of the members of the Ukiah City Council. The Agency's boundaries were within Ukiah's city limits and activities of the Agency benefit the citizens of Ukiah. The activities of the Agency through January 31, 2012, are reported in the City's special revenue, debt service and capital projects funds. The Agency did not prepare financial statements subsequent to June 30, 2011.

Ukiah Successor Agency – The City has elected to serve as the successor agency of the Ukiah Redevelopment Agency. In its capacity as the successor agency, the City will be responsible to wind-up the affairs of the former redevelopment agency, and dispose of the redevelopment agency's assets in compliance with State legislative requirements. The Ukiah Successor Agency is governed by a seven (7) member Oversight Board comprised of one (1) Ukiah City Council member, (1) Ukiah City employee, (2) members appointed by the Mendocino County Board of Supervisors, one (1) member appointed by Mendocino County Office of Education, one (1) member appointed by the Cemetery District, and one (1) member appointed by the Chancellor of the California Community College System. Activities of the OSA are reported as a private-purpose trust fund in the accompanying 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.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 to 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. The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

Special Revenue Funds – account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Capital Project Funds - account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets in governmental funds.

Debt Service Funds - account for the accumulation of resources for, and payment on, long-term obligation debt principal and interest (other than that serviced primarily by a governmental enterprise).

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.

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 include charges to customers for sales and services and rental fees. The parking district fund's principal operating revenues include the sale of parking permits to customers and parking fines. The City also recognizes as operating revenue tap fees intended to recover the cost of connecting new customers to the City's utilities. Operating expenses for the enterprise funds and internal service funds

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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.

D) Change in Financial Statement Presentation

As a result of the dissolution of the Ukiah Redevelopment Agency, the City established a new City nonmajor special revenue fund, a new City nonmajor capital projects fund, and a new private-purpose trust fund for the Ukiah Successor Agency. The special revenue and capital projects funds will account for the activities of the City's low and moderate income housing programs subsequent to the dissolution of the Ukiah Redevelopment Agency. The private-purpose trust fund will account for the assets and operations of the City acting as the as the Ukiah Successor Agency. The dissolution of the Ukiah Redevelopment Agency will also result in the elimination of two nonmajor special revenue funds, two nonmajor debt service funds, and three nonmajor capital projects funds in subsequent financial statements.

E) Assets, Liabilities, And Net Assets Or Equity

1) Cash And Investments

Investments for the City and its component units are reported at fair value. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2) Receivables And Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/from other funds" (i.e. the current portion of Interfund loans) or "advances to/from other funds" (i.e. the non-current portion of Interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

An estimated receivable of \$2,402,185 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2012. 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, 2012.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$875,869, including \$112,770 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 1st and were levied on July 1st. Taxes are due in two equal installments on November 1st and February 1st. 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) are classified as restricted assets on the balance sheet because their use is limited by applicable bond or other covenants.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012, no interest expense was capitalized to any of the City's capital projects.

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) Real Property Primarily Held for Resale

The City has acquired several real properties for the purpose of infilling the supply of low and moderate income housing. These properties will be subsequently sold and the proceeds placed back into the low and moderate income housing program. Therefore, these properties have been recorded as an asset on the accompanying financial statements at the lower of cost (the amount of the unpaid loan plus costs for foreclosure properties) or market and fully offset by recognizing a liability for Unearned Revenues – Real Property Held for Resale. At June 30, 2012, the carrying value of these properties was \$2,435,114.

7) 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.

8) 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.

CITY OF UKIAH
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9) Net Assets/Fund Balance Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net assets and unrestricted – net assets in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net assets to have been depleted before unrestricted – net assets are applied.

The government-wide statement of net assets reports \$7,214,629 of restricted net assets, of which \$400,256 is restricted by enabling legislation.

In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10) Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has authorized the City Department Heads to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

2) Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted for all governmental funds except the certain minor Special Revenue Funds including: Museum Grant, Asset Seizure (Drug/Alcohol), H&S Education, Federal Assets Seizure, Local Law Enforcement, Federal Emergency Shelter Grant, CDBG, EDBG 94-333 Revolving Loan, Community Development, SB 325 Reimbursement, Trans-Traffic Congestion, and FEMA Grant. Budgets are adopted on a basis consistent with generally accepted accounting principals. Annually, each City department submits a request for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Before June 30th, 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 \$5,493,814 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 commitments of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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B) Excess Of Expenditures Over Appropriations

For the year ended June 30, 2012, the following fund had expenditures exceeding appropriations:

Expenditures Over Appropriations:	
Supplemental Law Enforcement Fund	\$ (1,120)
Bridge Fund	(62,311)

C) Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2012. These deficits were primarily caused by expenditures in excess of grant awards. Management is monitoring each fund's activities to ensure improved financial position. The deficits do not represent a significant financial burden.

Deficit Fund Equities:	
Park Development Fund	\$ (824,518)
Museum Prop 84 Fund	(18)
Federal Asset Seizure Fund	(562)
Local Law Enforcement Fund	(15,975)
2105 Gas Tax Fund	(4,518)
Bridge Fund	(41,310)
STIP Augmentation Fund	(49,576)
FEMA Fund	(24,607)

3) Detailed Notes On All Funds

A) Cash And Investments

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

Statement of Net Assets:	
Cash and investments	\$ 51,901,629
Restricted cash with fiscal agent	6,838,625
Statement of Fiduciary Net Assets:	
Cash and investments	17,525,996
Cash with fiscal agent	1,371,709
Total Cash and Investments	<u>\$ 77,637,959</u>

Cash and investments consist of the following:

Cash on hand	\$ 2,450
Deposits with financial institutions	9,768,131
Investments	67,867,378
Total Cash and Investments	<u>\$ 77,637,959</u>

**CITY OF UKIAH
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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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Total of Portfolio</u>	<u>Maximum Investment On One Issuer</u>
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.

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As of June 30, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 11,253,449	1.87
U.S Treasury Bonds and Notes	19,098,120	2.43
U.S. Government Agency Bonds and Notes	22,001,549	1.74
Municipal and State Bonds	844,058	2.96
State Investment Pool (LAIF)	1,932,848	0.74
Money Market Funds	7,258,411	
Held By Bond Trustee:		
Money Market Funds	5,478,943	
Total Fair Value	\$ 67,867,378	
Portfolio Weighted Average Maturity		1.12

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2012, 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	\$ 11,253,449			\$ 6,336,658	\$ 4,916,791	
U.S Treasury Bonds and Notes	19,098,120	\$ 19,098,120				
U.S. Government Agency Bonds and Notes	22,001,549			22,001,549		
Municipal and State Bonds	844,058			844,058		
State Investment Pool	1,932,848					\$ 1,932,848
Money Market Funds	7,258,411		\$ 7,258,411			
Held By Bond Trustee:						
Money Market Funds	5,478,943					
Total Fair Value	\$ 67,867,378	\$ 19,098,120	\$ 7,258,411	\$ 29,182,265	\$ 4,916,791	\$ 1,932,848

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, 2012, the following investments from one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) represented 5% or more of the total City investments.

Investment Type	Issuer	Fair Value
Dreyfus Tax Exempt Cash Management Money Fund	Dreyfus	\$ 4,393,046

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

**CITY OF UKIAH
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securities in the collateral pool must equal 110% of the total deposits by public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. It is the policy of the City not to waive these requirements.

At year-end, the City's deposits with financial institutions totaled \$9,265,259, of which \$1,639,378 was covered by federal depository insurance. The \$7,625,881 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2012, 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	\$ 11,253,449
U.S Treasury Bonds and Notes	19,098,120
U.S. Government Agency Bonds and Notes	22,001,549
Municipal and State Bonds	844,058

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 \$50,000,000 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, 2012 was as follows:

Government Activities:	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Nondepreciable Capital Assets:				
Land	\$ 4,066,187	\$ -	\$ 3,940,842	\$ 125,345
Construction in progress	5,064,156	1,930,064	1,088,318	5,905,902
Total Nondepreciable Capital Assets	<u>9,130,343</u>	<u>1,930,064</u>	<u>5,029,160</u>	<u>6,031,247</u>
Depreciable Capital Assets:				
Land improvements	1,860,632	9,733		1,870,365
Infrastructure	33,019,432	289,909		33,309,341
Buildings	6,333,513	47,740	8,587	6,372,666
Licensed vehicles	4,275,535		117,145	4,158,390
Machinery and equipment	3,065,812	263,447	42,270	3,286,989
Total Depreciable Capital Assets	<u>48,554,924</u>	<u>610,829</u>	<u>168,002</u>	<u>48,997,751</u>
Less: Accumulated Depreciation:				
Land improvements	(802,683)	(65,726)		(868,409)
Infrastructure	(19,407,360)	(515,355)		(19,922,715)
Buildings	(2,508,557)	(143,377)	(271)	(2,651,663)
Licensed vehicles	(2,629,151)	(291,735)	(117,145)	(2,803,741)
Machinery and equipment	(1,964,947)	(184,963)	(16,607)	(2,133,303)
Total Accumulated Depreciation	<u>(27,312,698)</u>	<u>(1,201,156)</u>	<u>(134,023)</u>	<u>(28,379,831)</u>
Depreciable Capital Assets, net	<u>21,242,226</u>	<u>(590,327)</u>	<u>33,979</u>	<u>20,617,920</u>
Governmental Activities Capital Assets, net	<u>\$ 30,372,569</u>	<u>\$ 1,339,737</u>	<u>\$ 5,063,139</u>	<u>\$ 26,649,167</u>

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Business-Type Activities:	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Nondepreciable Capital Assets:				
Land	\$ 4,673,811	\$ 70,126	\$ 70,126	\$ 4,673,811
Construction in progress	11,311,572	1,721,559	1,519,603	11,513,528
Total Nondepreciable Capital Assets	15,985,383	1,791,685	1,589,729	16,187,339
Depreciable Capital Assets:				
Land improvements	1,962,582			1,962,582
Infrastructure	99,549,178	2,563,908		102,113,086
Buildings and improvements	56,691,132			56,691,132
Licensed vehicles	2,484,842		15,000	2,469,842
Machinery and equipment	6,950,154	30,023		6,980,177
Total Depreciable Capital Assets	167,637,888	2,593,931	15,000	170,216,819
Less: Accumulated Depreciation:				
Land improvements	(1,132,428)	(52,589)		(1,185,017)
Infrastructure	(13,995,952)	(2,006,647)		(16,002,599)
Buildings and improvements	(20,841,511)	(1,118,859)		(21,960,370)
Licensed vehicles	(1,996,387)	(157,810)	(15,000)	(2,139,197)
Machinery and equipment	(3,435,507)	(263,802)		(3,699,309)
Total Accumulated Depreciation	(41,401,785)	(3,599,707)	(15,000)	(44,986,492)
Depreciable Capital Assets, net	126,236,103	(1,005,776)	-	125,230,327
Business-Type Activities Capital Assets, net	\$ 142,221,486	\$ 785,909	\$ 1,589,729	\$ 141,417,666

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

Governmental Activities:	
General government	\$ 140,602
Public safety	340,195
Streets	574,595
Parks	120,748
Housing and community development	25,016
Total Depreciation Expense - Governmental Activities	\$ 1,201,156
Business-Type Activities:	
Electric	\$ 951,700
Water	591,946
Sewer	1,914,112
Disposal site	12,747
Airport	63,169
Parking	5,325
Golf course	13,811
Conference center	46,897
Total Depreciation Expense - Business-Type Activities	\$ 3,599,707

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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Construction And Other Commitments

At year-end the City's incomplete major commitments with contractors were as follows:

	Expended To-Date	Remaining Commitment
Costco EIR Contractual Services	\$ 174,431	\$ 133,584
Museum Prop 84 Nature Education	30,026	124,433
Talmage Road Corridor Improvements	-	259,988
ERP Software	359,792	402,562
Hydroelectric Penstock Repairs/Upgrades	45,543	104,942

C) Interfund Receivables, Payables And Transfers

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2012 is as follows:

<u>Due To(From) Other Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 74,870	\$ -
Water Fund		186,250
Nonmajor governmental funds		163,410
Nonmajor business-type funds		96,663
Internal service fund	371,453	
Total Due To(From) Other Funds	\$ 446,323	\$ 446,323
<u>Advances Due To(From) Other Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 559,134	\$ -
Water Fund		558,750
Nonmajor business-type funds		559,134
Internal service fund	558,750	
Total Advances Due To(From) Other Funds	\$ 1,117,884	\$ 1,117,884

The General and Liability funds have made long-term advances to the Golf Fund (a nonmajor enterprise fund) for the purpose of refunding a capital lease obligation and acquiring equipment. The Liability Fund has made a long-term advance to the Water Fund for the purpose of water-related capital projects and a short-term loan to the Park Development Fund for temporary funding of several parks related construction projects

The current portion of the above advances total \$245,710 has been included in due to(from) other funds.

<u>Interfund Transfers</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,065,910	\$ -
Electric Fund		1,065,910
Nonmajor governmental funds	6,500	6,500
Total Transfers In(Out)	\$ 1,072,410	\$ 1,072,410

The Electric Fund transferred \$1,065,910 to the General Fund representing payments in-lieu of taxes. The Special Projects Fund (nonmajor capital projects fund) transferred \$6,500 to the Park Development Fund (a nonmajor special revenue fund) to fund a portion of various park improvement projects.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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D) Long-Term Debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Transferred to the Ukiah Successor Agency	Balance July 1, 2012
Government Activities:					
Tax Allocation Bonds - Series 2007	\$ 4,535,000	\$ -	\$ 265,000	\$ 4,270,000	\$ -
Tax Allocation Bonds - Series 2011A	5,180,000			5,180,000	-
Tax Allocation Bonds - Series 2011B	3,250,000			3,250,000	-
Deferred amounts:					
Issuance discounts	(298,095)		(10,828)	(287,267)	-
Governmental Activities					
Long-Term Liabilities	<u>\$ 12,666,905</u>	<u>\$ -</u>	<u>\$ 254,172</u>	<u>\$ 12,412,733</u>	<u>\$ -</u>

All of the long-term liabilities of the governmental activities of the City of Ukiah were various bond indentures issued by the former Ukiah Redevelopment Agency. Both the assets and liabilities of the former Ukiah Redevelopment were transferred to the Ukiah Successor Agency private-purpose trust fund on February 1, 2012. In future fiscal years, bond payments will be made by assets held with the Ukiah Successor Agency or from an allocation of property tax revenues in an amount that is necessary to pay the annual installment payments on these bonds. At June 30, 2012, the balance of these bonds outstanding was \$12,700,000 which been included as a liability of the Ukiah Successor Agency private-purpose trust fund and is comprised of the following individual bond series:

Ukiah Redevelopment Agency Tax Allocation Refunding Bonds, Series 2007. On April 18, 2007, the former 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 1st 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 1st and December 1st. The outstanding balance was \$4,270,000 at June 30, 2012.

Ukiah Redevelopment Project Tax Allocation Bonds, Series 2011A. On March 8, 2011, the former Ukiah Redevelopment Agency (Agency) issued \$5,180,000 Tax Allocation Bonds, 2011 Series A. The bonds were a special obligation of the Agency payable solely from and secured by a pledge of Agency tax revenues. The bonds carry an interest rate ranging from 3.0% to 6.5%. The bond series is comprised of \$2,840,000 in serial bonds maturing annually on December 1st through the year 2021, and \$2,340,000 in term bonds maturing on December 1, 2028. The serial bonds require annual principal payments ranging from \$10,000 to \$620,000. Proceeds of the bonds will be used to finance redevelopment activities, fund a reserve account for the bond issue and provide for the cost of issuing the bonds. The outstanding balance was \$5,180,000 at June 30, 2012.

Ukiah Redevelopment Project Taxable Tax Allocation Housing Bonds, Series 2011B. On March 8, 2011, the former Ukiah Redevelopment Agency (Agency) issued \$3,250,000 Taxable Tax Allocation Bonds, 2011 Series B. The bonds are a special obligation of the Agency payable solely from Agency housing tax revenues. The bonds carry an interest rate ranging from 3.25% to 9.0%. The bond series is comprised of \$1,585,000 in serial bonds maturing annually on August 1st through the year 2021, and \$1,665,000 in term bonds maturing on August 1, 2026. The serial bonds require annual principal payments ranging from \$75,000 to \$270,000. Proceeds of the bonds will be used to finance redevelopment activities benefiting low and moderate income housing, fund a reserve account for the bond issue and provide for the cost of issuing the bonds. The outstanding balance was \$3,250,000 at June 30, 2012.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

	Balance July 1, 2011	Additions	Deletions	Balance Agency	Due Within One Year
Business-Type Activities:					
Electric revenue bonds payable	\$ 11,330,000		\$ 1,325,000	\$ 10,005,000	\$ 1,325,000
Deferred amounts:					
Issuance discounts	(199,311)		(28,473)	(170,838)	
Net revenue bonds payable	<u>11,130,689</u>	\$ -	<u>1,296,527</u>	<u>9,834,162</u>	<u>1,325,000</u>
Installment obligations payable:					
Water treatment plant	13,175,000		320,000	12,855,000	325,000
Wastewater treatment plant	71,860,000		1,660,000	70,200,000	1,720,000
Deferred amounts:					
Issuance premiums	154,736		6,349	148,387	
Net installment obligations payable	<u>85,189,736</u>	-	<u>1,986,349</u>	<u>83,203,387</u>	<u>2,045,000</u>
State loans:					
Water Resources - Water Treatment	1,641,182		123,899	1,517,283	128,524
Water Resources - Sewer Treatment	<u>1,950,628</u>		<u>367,474</u>	<u>1,583,154</u>	<u>378,499</u>
Total State loans	<u>3,591,810</u>	-	<u>491,373</u>	<u>3,100,437</u>	<u>507,023</u>
Landfill closure and post-closure	<u>8,595,222</u>	-	-	<u>8,595,222</u>	-
Total Business-Type Activities					
Long-Term Liabilities	<u>\$ 108,507,457</u>	\$ -	<u>\$ 3,774,249</u>	<u>\$ 104,733,208</u>	<u>\$ 3,877,023</u>

Electric Revenue Bonds. The City has issued bonds where the City pledges revenue derived from the acquired or constructed assets of the City's electric system to pay debt service. Revenue bonds outstanding, excluding an unamortized discount of \$170,838, at June 30, 2012 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$ 10,005,000

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 1st and March 1st. At June 30, 2012 the installment obligation liability outstanding excluding the unamortized premium of \$94,791 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 12,855,000

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Wastewater Treatment Plant – Dated March 1, 2006 the original amount of the obligation was \$75,060,000 and is secured with a pledge of net revenues from the City’s wastewater system. The obligation principal is payable in annual installments beginning March 1, 2009 ranging from \$400,000 to \$4,690,000 through March 1, 2036. Interest payments commence September 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2012 the installment obligation liability outstanding excluding the unamortized premium of \$53,596 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 70,200,000

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, 2012, the balance of the loan was \$1,517,283. Principal and interest are payable semi-annually on April 1st, and October 1st, 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, 2012, the balance of the loan was \$1,583,154. Principal and interest are payable annually on April 15th with the interest rate being 3.0%.

Landfill Closure And Postclosure Costs. As more fully discussed in Note 4(D), long-term liabilities include \$8,775,386 in accrued landfill closure and postclosure costs. These liabilities are not included in the following table of debt service requirements.

Year Ended June 30,	Business-Type Activities					
	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,410,000	\$ 625,312	\$ 507,023	\$ 101,001	\$ 2,045,000	\$ 3,694,122
2014	1,500,000	537,188	523,050	84,975	2,115,000	3,612,123
2015	1,610,000	443,438	539,587	68,437	2,200,000	3,527,048
2016	1,710,000	342,812	556,307	51,718	2,290,000	3,438,492
2017	1,825,000	235,938	148,255	33,781	2,385,000	3,346,225
2018-2022	1,950,000	121,875	826,215	83,965	13,510,000	15,181,279
2023-2027	-	-	-	-	16,785,000	11,988,043
2028-2032	-	-	-	-	21,035,000	7,795,849
2033-2037	-	-	-	-	20,690,000	2,422,125
	<u>\$ 10,005,000</u>	<u>\$ 2,306,563</u>	<u>\$ 3,100,437</u>	<u>\$ 423,877</u>	<u>\$ 83,055,000</u>	<u>\$ 55,005,306</u>

E) Segment Information

As discussed previously, the City has issued revenue bonds to finance improvements in its electric department. The City also 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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012, was \$688,902 which management believes is adequate to finance the City's share of any losses.

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

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

B) Related Organizations

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

Northern California Power Agency (NCPA) - Membership consists of eleven municipal electric utilities, a port authority, an irrigation district, a public utility district, 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, 2012, the City paid \$7,156,128 to the NCPA for power supplied by the agency.

The NCPA holds certain funds under a separate member custodial agreement - the general operating reserve. The purpose of the reserve is to allow members to fund all, or a portion, of the contingent liabilities that the NCPA faces at any given time, while providing the individual member with the flexibility to draw upon their part of the reserve, as each member individually deems appropriate. At June 30, 2012, the City's balance held in the reserve was \$8,889,150. Due to the nature of the reserve held by NCPA, payments made to the reserve are expensed as purchased power.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 \$1,062,184. During the year, the City received distribution from REMIF totaling \$138,365 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.

C) Contingencies

On January 18, 2012, the City of Ukiah passed a resolution demanding payment of the loans made to the Ukiah Redevelopment Agency. On January 25, 2012, the Ukiah Redevelopment Agency transferred \$1,197,702 (\$1,159,549 principal and \$38,153 interest) to the City of Ukiah to repay the loan obligation due to the City. Health and Safety Code Section 34167(d) applied to the actions of redevelopment agencies, commencing on June 27, 2011, until they were dissolved on February 1, 2012. Unlike Health and Safety Code Section 34171(d), which became effective as part of Part 1.85 of the Health and Safety Code on February 1, 2012, the definition of enforceable obligation in Section 34167(d) did not contain any restriction on loans from a city to its redevelopment agency. The payment was listed on the Enforceable Obligation Payment Schedule ("EOPS") which became effective on August 27, 2012 when the California Department of Finance did not question the payment.

Commencing on February 1, 2012, Health and Safety Code Section 34171(d)(2) limited the authority of successor agencies to the former redevelopment agencies to repay loans between a redevelopment agency and the entity that created the redevelopment agency to loans that were made within 2 years after the redevelopment agency was established. The City of Ukiah created the Ukiah Redevelopment Agency in 1975. The Ukiah Redevelopment Agency and the City entered the loan agreement in 1996, more than two years after the redevelopment agency was established. All but \$200,000 of the \$1,500,000 in loans were made in fiscal years 1991 and 1992, which was within 2 years of when the City adopted a redevelopment plan and created a redevelopment area.

The City takes the position that it had a legal right to demand payment, and the Ukiah Redevelopment Agency had a legal obligation to pay the outstanding loan as an enforceable obligation and as authorized by the unquestioned EOPS. The California State Department of Finance (DOF) has noted, on its website, that all loans from cities to their redevelopment agencies repaid after January 1, 2011, that do not meet the criteria of Section 34171(d)(2) do not qualify as enforceable obligations. Based on that position, the DOF may demand that the City transfer those loan payments to its Successor Agency. If returned, the City may be able to obtain a finding by the Oversight Board of the Successor Agency that the loans were made for legitimate redevelopment purposes and qualify as enforceable obligations eligible for repayment, but such repayment would be limited to the restrictions contained in Section 34191.4(b) of the Health and Safety Code. Upon transfer of the loan payments to the Successor Agency, the City would record a receivable

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

from the Ukiah Successor Agency, and a corresponding liability would be recorded in the Ukiah Successor Agency private-purpose trust fund pending the Oversight Board finding. No adjustment has been made on the accompanying financial statements as a result of this contingency.

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.

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 \$8,775,386 (including \$871,052 for corrective action liability) as of June 30, 2012, 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, 2012, 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, 2012, held \$8,900,510 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.

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 rates for fiscal 2011/12 were 23.87% for miscellaneous employees, 37.67% for police, and 29.52% 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 2011/12 the City's annual pension cost was \$2,907,053 (\$1,826,673 for Miscellaneous, \$730,621 for Police and \$349,759 for Fire) and the City actually contributed \$2,675,452. In addition, the City paid \$945,716 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 2011/12 was determined as part of the June 30, 2009, actuarial valuation.

Three-Year Trend Information					
Year Ending June 30,	Annual Pension Cost			Percentage Contributed	Net Pension Obligation
	Miscellaneous	Police	Fire		
2010	\$ 1,686,803	\$ 650,253	\$ 338,396	100%	\$ -
2011	1,662,180	613,093	314,284	100%	-
2012	1,826,673	730,621	349,759	100%	-

The actuarial value of the Plan's assets was determined using a 15-year smoothed market technique that smoothes the effect of short-term volatility in the market value of investments over a multi-year period depending on the size of the investment gains and/or losses. Each Plan's unfunded actuarial liability is being amortized as a level percentage of projected payrolls over a closed period that began on the Plan's date of entry into the CalPERS system. Subsequent Plan amendments are amortized over 20 years. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period on the total unfunded liability may not be lower than 30 years. As of June 30, 2011 (the latest actuarial valuation date), the remaining average amortization period was 27 years for Miscellaneous, and 25 years for Police and Fire.

	Miscellaneous	Police	Fire
Investment rate of return	7.75%	7.75%	7.75%
Projected salary increases	3.55% - 14.45%	3.55% - 14.45%	3.55% - 14.45%
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%

G) Deferred Compensation

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

H) Extraordinary Item - Dissolution of the Ukiah Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Ukiah that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of a City resolution.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary gain in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary gain recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements. The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds - increase to the net assets of the Successor Agency Trust Fund	\$ 12,331,505
Capital assets transferred to the Ukiah Successor Agency:	
Land primarily held for resale	4,943,051
Equipment and other capital assets	142,294
Long-term debt transferred to the Ukiah Successor Agency	(12,700,000)
Deferred charges on long-term debt transferred to the Ukiah Successor Agency:	
Unamortized discount on long-term debt	560,410
Net increase to net assets of the Ukiah Successor Agency Trust Fund as a result of the initial transfers (equal to amount of extraordinary loss reported in the government-wide financial statements of the City)	\$ 5,277,260

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, 2012**

	<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	\$ 745,056	\$ 1,245,056	\$ 1,213,479	\$ (31,577)
Sales and use	6,333,756	6,333,756	6,465,410	131,654
Property transfer	33,700	33,700	24,770	(8,930)
Transient occupancy	691,108	691,108	775,547	84,439
Business license	315,291	315,291	325,674	10,383
Franchise	535,400	547,400	567,486	20,086
Licenses and permits	131,800	131,800	434,492	302,692
Fines, forfeitures, and penalties	52,662	52,662	46,960	(5,702)
From other agencies	1,374,988	1,374,988	1,350,289	(24,699)
Use of money and property	829,571	829,571	856,146	26,575
Charges for current services	892,204	892,204	1,146,590	254,386
Other	1,000	1,000	4,498	3,498
Total Revenues	<u>11,936,536</u>	<u>12,448,536</u>	<u>13,211,341</u>	<u>762,805</u>
<u>EXPENDITURES</u>				
Current:				
General government	1,728,729	2,231,319	1,817,593	413,726
Public safety	8,183,289	8,511,076	8,660,148	(149,072)
Streets and roads	927,891	942,321	1,087,896	(145,575)
Parks and recreation	1,840,654	1,845,654	1,970,035	(124,381)
Community development	98,255	225,755	67,839	157,916
Debt service	5,546	5,546	38	5,508
Capital outlay	149,329	173,641	46,593	127,048
Total Expenditures	<u>12,933,693</u>	<u>13,935,312</u>	<u>13,650,142</u>	<u>285,170</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(997,157)</u>	<u>(1,486,776)</u>	<u>(438,801)</u>	<u>1,047,975</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,022,219	1,022,219	1,065,910	43,691
Total Other Financing Sources (Uses)	<u>1,022,219</u>	<u>1,022,219</u>	<u>1,065,910</u>	<u>43,691</u>
Net Change In Fund Balances	25,062	(464,557)	627,109	1,091,666
Fund Balances, July 1,	6,237,800	6,237,800	6,237,800	-
Fund Balances, June 30,	<u>\$ 6,262,862</u>	<u>\$ 5,773,243</u>	<u>\$ 6,864,909</u>	<u>\$ 1,091,666</u>

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

Miscellaneous Plan Of The City Of Ukiah

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
06/30/09	\$ 41,387,732	\$ 56,077,434	\$ 14,689,702	73.8%	\$ 7,657,251	191.8%
06/30/10	43,284,701	59,483,106	16,198,405	72.8%	7,617,574	212.6%
06/30/11	45,539,395	64,706,927	19,167,532	70.4%	8,358,294	229.3%

COMBINING FINANCIAL STATEMENTS
PRIVATE PURPOSE TRUST FUNDS

**CITY OF UKIAH
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2012**

<u>ASSETS</u>	<u>Ukiah Successor Agency</u>	<u>Special Deposit</u>	<u>Payroll Posting</u>	<u>Business Improvement</u>	<u>Total</u>
Assets:					
Cash and investments	\$10,289,003	\$1,231,330	\$538,900	\$4,235	\$12,063,468
Cash with fiscal agent	1,371,709				1,371,709
Receivables:					
Accounts (net)	8,759	12,300	31,229		52,288
Property tax	855,030				855,030
Deferred charges	970,741				970,741
Real property held primarily for resale	3,730,238				3,730,238
Capital assets	142,294				142,294
Total Assets	<u>17,367,774</u>	<u>1,243,630</u>	<u>570,129</u>	<u>4,235</u>	<u>19,185,768</u>
<u>LIABILITIES</u>					
Liabilities:					
Accounts payable	1,368,111	39,925		3,727	1,411,763
Accrued salaries and benefits			282,919		282,919
Utility and other deposits		1,203,705			1,203,705
Accrued interest payable	144,628				144,628
Deferred revenues	705,126				705,126
Due to County of Mendocino	1,789,918				1,789,918
Noncurrent Liabilities:					
Due within one year	855,000				855,000
Due in more than one year	11,565,465				11,565,465
Total Liabilities	<u>16,428,248</u>	<u>1,243,630</u>	<u>282,919</u>	<u>3,727</u>	<u>17,958,524</u>
<u>NET ASSETS</u>					
Held in trust for other purposes	<u>\$ 939,526</u>	<u>\$ -</u>	<u>\$ 287,210</u>	<u>\$ 508</u>	<u>\$ 1,227,244</u>

CITY OF UKIAH
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Ukiah Successor Agency</u>	<u>Special Deposit</u>	<u>Payroll Posting</u>	<u>Business Improvement</u>	<u>Total</u>
<u>Additions</u>					
Taxes	\$ 1,523,854	\$ -	\$ -	\$ 21,860	\$ 1,545,714
Use of money and property	10,098			20	10,118
Other revenues	2,868				2,868
Total Additions	<u>1,536,820</u>	<u>-</u>	<u>-</u>	<u>21,880</u>	<u>1,558,700</u>
<u>Deductions</u>					
Salaries and benefits	399,715		51,481		451,196
Operating expenses	114,750				114,750
Contractual services	65,318			21,923	87,241
Governmental services	12,242				12,242
Payments to other governmental entities	3,680,630				3,680,630
Net decrease in asset values	1,212,813				1,212,813
Debt Service:					
Interest and fiscal charges	389,086				389,086
Total Deductions	<u>5,874,554</u>	<u>-</u>	<u>51,481</u>	<u>21,923</u>	<u>5,947,958</u>
Extraordinary item: Dissolution of the Ukiah Redevelopment Agency	5,277,260				5,277,260
Change in net assets	939,526	-	(51,481)	(43)	888,002
Net Assets - beginning	-	-	338,691	551	339,242
Net Assets - ending	<u>\$ 939,526</u>	<u>\$ -</u>	<u>\$ 287,210</u>	<u>\$ 508</u>	<u>\$ 1,227,244</u>

OTHER COMPLIANCE REPORTS

CITY OF UKIAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<u>Department of Housing and Urban Development</u>		
Passed through State Department of Housing and Community Development:		
Community Development Block Grant		
09-STBG-6417	14.288	\$ 257,321
10-STBG-7261	14.288	14,560
Home Investment Partnerships Program:		
08-HOME-4688	14.239	1,376
Total Department of Housing and Urban Development		<u>273,257</u>
<u>Department of Transportation</u>		
Passed through State Department of Transportation:		
ARRA - Highway Planning and Construction:		
ESPL-5049(022)	20.205	59,345
Total Department of Transportation		<u>59,345</u>
<u>Department of Justice</u>		
Public Safety Partnership and Community Policing Grants:		
ARRA - COPS Hiring Recovery Program:		
2009RKWX0124	16.710	87,887
Edward Byrne Memorial Justice Assistance Grant:		
2010DJBX0718	16.738	12,318
2009DJBX0763	16.738	679
Federal Asset Seizure:		
DEA #08-DEA-493980	16.999	31,041
Total Department of Justice		<u>131,925</u>
<u>Department of Interior</u>		
Outdoor Recreation Acquisition, Development & Planning		
C895008	15.916	24,547
Total Department of Interior		<u>24,547</u>
<u>Department of Commerce Economic Development Administration</u>		
Investments for Public Works & Economic Development Facilities		
07-01-06042	11.300	195,161
Total Department of Interior		<u>195,161</u>
TOTALS		<u>\$ 684,235</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
JUNE 30, 2012**

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.



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

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 9, 2013, which was modified to disclose the dissolution of the Ukiah Redevelopment Agency (a component unit of the City). 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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

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.

March 9, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Ukiah's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2012. The City of Ukiah's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Ukiah's management. Our responsibility is to express an opinion on the City of Ukiah's compliance based on our audit.

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

In our opinion, the City of Ukiah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Ukiah is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts and grants applicable to its major federal program. In planning and performing our audit, we considered the City of Ukiah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ukiah's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



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

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

Davis Hammon & Co.

March 9, 2013

**CITY OF UKIAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

A) Summary of Audit Results

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements. The report was modified to disclose the dissolution of the Ukiah Redevelopment Agency (a component unit of the City).
- 2) No significant deficiencies were disclosed related to the audit of the basic financial statements of the City of Ukiah.
- 3) One instance of noncompliance material to the basic financial statements of the City of Ukiah was disclosed as required to be reported in accordance with Government Auditing Standards.
- 4) No significant deficiencies were disclosed during the audit of major federal award programs.
- 5) The auditors' report on compliance for major federal award programs for the City of Ukiah expresses an unqualified opinion.
- 6) There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- 7) The programs tested as major programs included:
 - a. Department of Commerce Economic Development Administration
Investments for Public Works & Economic Development Facilities
CFDA: 11.300
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) The City of Ukiah was determined to be a low-risk auditee.

B) Findings – Financial Statement Audit

2012-01 *Criteria* – As part of the State legislation dissolving all California redevelopment agencies, the California Health and Safety Code (Code) restricted the repayment of loans owed by a redevelopment agency to the entity that created the redevelopment agency. Section 34171(d)(2) of the Health and Safety Code defines loans of this type as an *enforceable obligation* (eligible for repayment) only if the loans were established within two years of the creation of the redevelopment agency. Section 34167(d) also contains a definition for enforceable obligations, but does not include any restrictions for City-RDA loans or any “two-year” criteria restrictions. Section 34171 applies to a successor agency while Section 34167 applied to a former redevelopment agency. The Ukiah Successor Agency was established on February 1, 2012.

Statement of Condition – The City of Ukiah first formed the Ukiah Redevelopment Agency (RDA) in 1974, and adopted a redevelopment plan on November 15, 1989. Beginning in February, 1983 the City made several loans to the Agency, all payable on demand. On April 3, 1996, the City entered into a loan agreement consolidating of all prior loan balances and adding additional amounts for a total of \$1,577,206. The loan was payable on demand. On January 18, 2012, the City made a demand to the RDA for full payment of the loan and on January 20,

2012, a transfer was made from the RDA to the City to repay the outstanding loan balance in full. The amount transferred was \$1,197,702 including principal and accrued interest.

Questioned Costs – \$1,197,702.

Perspective Information – The loan agreement between the City of Ukiah and the Ukiah Redevelopment Agency was a valid obligation, but did not meet the “enforceable obligation” criteria established by State legislation under Section 34171(d). In a response to a question regarding whether this type of loan was an enforceable obligation under AB x1 26 (the legislation creating Sections 34167 and 34171) the California Department of Finance (“DOF”) stated, “Except for loan agreements made within the first two years of the life of the agency, or loans that relate to issued securities, the act does not recognize such loans to be enforceable obligations.” The repayment, however, was made by the Ukiah Redevelopment Agency under the enforceable obligation definition contained in Section 34167.

Cause – The Ukiah City Council and City management believed it was in the best interest of the citizens of the City of Ukiah to have the RDA repay the loan.

Effect – The DOF may require the City of Ukiah to return the loan payment to the Ukiah Successor Agency. If the Ukiah Successor Agency does not prevail in establishing that the repayment was lawfully made, and the funds are returned by the City of Ukiah, the City would have the opportunity to have the loans repaid under the provisions of Section 34191.4(b) of the Code. Under this scenario, the City’s rights and use of the funds could be delayed, limited, or forfeited.

Recommendation – The City should consult legal counsel as to what options are available, including pursuit of dispute resolution, if the DOF determines that the funds should be repaid, seeking reinstatement by the Oversight Board and validating payment pursuant to Health and Safety Code 34191.4(b).

Views of Responsible Officials – The loan was properly repaid by the Ukiah Redevelopment Agency on January 20, 2012, pursuant to Health and Safety Code Sections 34167(d), 34167(f) and the approved and effective EOPS. If the Department of Finance disputes the payment, management intends to pursue dispute resolution and believes that the dispute should be resolved in favor of the Successor Agency. Management also intends to seek approval for repaying the loan pursuant to Health and Safety Code Section 34191.4(b), if necessary.

C) Findings – Major Federal Award Programs

No findings or questioned costs noted.

D) Status of Prior Year Findings and Questioned Costs

There were no matters outstanding from prior year findings.



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

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

We have applied the procedures enumerated below to the Appropriations Limit calculations of the City of Ukiah for the year ended June 30, 2012. 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.

March 9, 2013