

**CITY OF UKIAH
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2013

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JUNE 30, 2013**

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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, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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 14 and 49 through 50, 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.

Other Information

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 financial statements - private-purpose trust funds - are presented for the purpose of additional analysis and are not a required part of the financial statements.

The combining financial statements - private-purpose trust funds - are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2014, 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 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 in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Davis Hammon & Co.

July 28, 2014

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, 2013. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2013, 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 position decreased 2.3% to \$124,794 from \$127,752 a year ago.
- Governmental net position ended the year at \$45,791 down 2.9% from \$47,156 in the prior year while net position for Business Type activities were down 2.0% to \$79,003 from \$80,596 in 2012.
- Total tax revenue, other governmental revenues and business activity revenues were lower than expenses by \$1,778.
- General Fund expenditures exceeded revenues and other financing sources and uses by \$1,591.
- Total revenues from all sources were \$47,086, down 15.2% from \$55,529 in the prior year.
- The total cost of all activities was \$49,152, up from the prior year at \$47,471.

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 Position 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 Position 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 Position 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 position and changes thereto. Net position, 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 position 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 Position 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.

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 recreation development projects which are managed by the government.

We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position 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 position 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 Position and the Statement of Activities.

3. FINANCIAL ANALYSIS OF GOVERNMENT WIDE STATEMENTS

The Summary of Net Position (Table 1) and Summary of Changes in Net Position (Table 2) present the City's governmental and business activities in total for the years ending June 30, 2013 and June 30, 2012.

The City's combined net position for the fiscal year ended June 30, 2013 was \$124,794. 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 position for governmental activities decreased 2.9% from \$47,156 to \$45,791. Business-type activities net position decreased 2.0% from \$80,596 to \$79,003. Legally unrestricted governmental net position included assets in special revenue funds received for specific purposes and accumulated for capital projects.

The Electric Utility transferred \$1,029 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 2012-13, transfers were made to the Sewer Debt Service Fund from the City Rate Stabilization Fund (\$643) and from the Ukiah Valley Sanitation District Rate Stabilization Fund (\$669) to meet bond coverage requirements.

Table 1
Summary of Net Position
 June 30, 2013 and 2012
(Full Accrual, in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	26,067	28,990	44,899	46,363	70,966	75,353
Capital assets	29,739	26,649	137,331	141,418	167,070	168,067
Total Assets	55,806	55,639	182,230	187,781	238,036	243,420
Long-term debt outstanding	-	-	96,989	100,951	96,989	100,951
Other liabilities	10,015	8,483	6,238	6,234	16,253	14,717
Total Liabilities	10,015	8,483	103,227	107,185	113,242	115,668
Net Position:						
Net investment in capital assets	27,304	26,649	44,514	48,101	71,818	74,750
Restricted	3,025	3,086	2,028	4,129	5,053	7,215
Unrestricted	15,462	17,421	32,461	28,366	47,923	45,787
Total Net Position	45,791	47,156	79,003	80,596	124,794	127,752

Table 2
Summary of Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(Full Accrual, in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	4,128	4,195	29,764	33,912	33,892	38,107
Operating grants and Contributions	1,238	1,062	41	11	1,279	1,073
Capital grants and Contributions	251	3,098	-	-	251	3,098
General Revenues:						
Taxes	10,143	11,395	-	-	10,143	11,395
Intergovernmental revenue not restricted to specific programs	1,229	1,239	-	-	1,229	1,239
Unrestricted Investment Earnings	91	175	201	442	292	617
Total Revenues	17,080	21,164	30,006	34,365	47,086	55,529
Expenses:						
General government	2,957	2,571	-	-	2,957	2,571
Public safety	10,515	9,827	-	-	10,515	9,827
Public works	2,109	2,206	-	-	2,109	2,206
Parks and Recreation	2,482	2,263	-	-	2,482	2,263
Community Development	1,254	1,224	-	-	1,254	1,224
Interest on long-term debt	-	420	-	-	-	420
Electric	-	-	14,483	13,980	14,483	13,980
Water	-	-	3,651	3,415	3,651	3,415
Sewer	-	-	8,638	8,244	8,638	8,244
Solid Waste Disposal Site	-	-	414	340	414	340
Street Lighting	-	-	225	220	225	220
Airport	-	-	1,638	1,312	1,638	1,312
Parking District	-	-	166	160	166	160
Golf Course	-	-	275	971	275	971
Conference Center	-	-	345	318	345	318
Total Expenses	19,317	18,511	29,835	28,960	49,152	47,471
Change in Net Position Before Special Items and Transfers:	(2,237)	2,653	171	5,405	(2,066)	8,058
Special Item - To other agency	-	(5,277)	-	-	-	(5,277)
Transfers	872	1,066	(584)	(1,066)	288	-
Change in Net Position	(1,365)	(1,558)	(413)	4,339	(1,778)	2,781
Beginning Net Position	47,156	48,714	80,596	76,257	127,752	124,971
Change in Accounting Principle	-	-	(1,180)	-	(1,180)	-
Beginning Net Position - Restated	47,156	48,714	79,416	76,257	126,572	124,971
Ending Net Position	45,791	47,156	79,003	80,596	124,794	127,752

Table 3 presents the cost of each of the City's major governmental programs for FY 2012-13 and FY 2011-12.

Table 3
Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2013 and 2012
(Full Accrual, in Thousands)

	2013	2012	Cost Change	Percentage Change
General Government	2,957	2,571	386	15%
Public Safety	10,515	9,827	688	7%
Public Works	2,109	2,206	(97)	-4%
Parks & Recreation	2,482	2,263	219	10%
Community Development	1,254	1,224	30	2%
Debt Service Interest		420	(420)	-100%
Total Governmental Activities	19,317	18,511	806	4%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total cost of governmental activities increased by 4%. The increases in General Government, Public Safety, Parks & Recreation and Community Development were offset in part by decreases in Public Works and Debt Service. Governmental expenses reflect a wide variety of projects and on-going activities, many of which are supported in part by program fees or other funding sources.

The City's PERS retirement benefits costs increased by \$244 from 2012 to 2013 (to \$3,151 from \$2,907).

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 \$126. Fire salaries and overtime decreased by \$472 as the ambulance service provided by the City was stopped as of March, 2013.

Public Works primarily consists of engineering, streets, and public rights of way maintenance. Projects in FY 2012-13 included work on the Talmage Road Corridor Improvements, the Gobbi Street Rehabilitation and the Orchard Avenue Storm Drains.

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 2012-13 expenses included \$214 for 11-HOME-7654 First Time Home Buyers and Owner Occupied Rehab program, \$98 for the Prop 84 Sustainable Communities Grant, and \$72 for the Alex Rorabaugh Center general operating expenses

Business Type Activities

The City's net position for business-type activities in continuing operations resulted in a \$255 increase in net position or 1% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$5,176 increase, or 15% in 2012. 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, 2013 and 2012
(Full Accrual, in Thousands)

	Operating Expenses		Operating Revenues		Increase (decrease) From Operations			
	2013	2012	2013	2012	2013		2012	
Electric	14,483	13,980	15,140	16,157	657	4%	2,177	16%
Water	3,651	3,415	5,814	4,936	2,163	37%	1,521	19%
Sewer	8,638	8,244	6,214	9,786	(2,424)	-39%	1,542	-30%
Street Lighting	225	220	193	187	(32)	-17%	(33)	5%
Airport	1,638	1,312	1,726	1,447	88	5%	135	-13%
Parking District	166	160	114	116	(52)	-46%	(44)	-27%
Golf Course	275	971	195	916	(80)	-41%	(55)	-6%
Conference Center	345	318	280	251	(65)	-23%	(67)	-10%
Total	29,421	28,620	29,676	33,796	255	1%	5,176	4%
Closed Program:								
Solid Waste Disposal Site	414	340	129	127	(285)		(213)	

Electricity purchase costs increased from \$7,156 last year to \$7,983 in FY 2012-13, while rates charged by the Utility were held constant. Purchase costs represented 55% of the Operating Expenses for FY 2012-13 up from 51% in FY 2011-12.

Annual water revenue was up 18% 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 2012-13. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenue.

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 2012-13, revenue from this tax increased to \$2,413 from \$2,229. There was a decline in property tax received of \$1,698 primarily as a result of the one-time payments received in the prior year due to the dissolution of the Ukiah Redevelopment Agency. The total decrease in governmental revenues was \$3,585, or 18%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues, expenditures, transfers, and changes in fund balances:

Table 5
Revenue, Expenditures and Fund Balance Summary - Governmental Funds
For the Fiscal Years Ended June 30, 2013 and 2012
(Modified Accrual Basis, in Thousands)

	General		Other Governmental Funds		Total Governmental Funds	
	2013	2012	2013	2012	2013	2012
Revenues:						
Taxes	10,219	9,372	-	1,969	10,219	11,341
Licenses and permits	272	435	-	-	272	435
Fines, forfeitures & penalties	45	47	274	223	319	270
From other agencies	1,245	1,350	1,719	3,406	2,964	4,756
Use of money & property	155	856	69	228	224	1,084
Charges for current services	1,518	1,146	63	-	1,581	1,146
Other	(1)	5	245	371	244	376
Total Revenues	13,453	13,211	2,370	6,197	15,823	19,408
Expenditures:						
Current	15,103	13,603	1,791	1,963	16,894	15,566
Debt service	-	-	-	825	-	825
Capital outlay	246	47	1,299	2,435	1,545	2,482
Total Expenditures	15,349	13,650	3,090	5,223	18,439	18,873
Excess(Deficiency) of revenues over expenditures	(1,896)	(439)	(720)	974	(2,616)	535
Other Financing Sources(Uses):						
Transfers In	1,267	1,066	1,414	7	2,681	1,073
Transfers Out	(962)	-	(1,120)	(7)	(2,082)	(7)
	305	1,066	294	-	599	1,066
Extraordinary Item: RDA	-	-	-	(12,331)	-	(12,331)
Net Change in Fund Balance	(1,591)	627	(426)	(11,357)	(2,017)	(10,730)
Fund Balances, July 1	6,865	6,238	10,563	21,920	17,428	28,158
Ending Fund Balance	5,274	6,865	10,137	10,563	15,411	17,428

Excluding the revenue from the additional 0.5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) decreased by 14.3%. The revenue from the additional 0.5% local sales tax increased by 8.2% from FY 2011-12 to FY 2012-13.

General Fund revenue "From Other Agencies" primarily includes State of California payments for motor Vehicle License Fees (MVLFF).

Other Governmental funds "From Other Agencies" includes many government grants which vary dramatically from year to year, increasing to \$3,406 for FY2011-12 but decreasing in FY2012-13 to \$1,719. The largest components of this year's funding included \$475 for the Underground Storage Tank Clean-up at the Corporation Yard, \$236 for Riverside Park improvements, and \$161 from the 11-HOME-7654 Grant for First Time Homebuyers and Owner Occupied Rehabilitation.

General Fund “current” expenditures increased from \$13,603 to \$15,103. Other Governmental Funds saw a 41% decrease in total expenditures, primarily in Capital Outlay. The total of Governmental Fund expenditures decreased from \$18,873 in FY 2011-12 to \$18,439 in FY 2012-13, a 2.3% decrease.

The net change in fund balance in the General Fund for FY 2012-13 was a decrease of \$1,591, as compared to an increase of \$627 in FY 2011-12, reflecting the higher expenditures offset, in part, by increased revenues. The net change in fund balances for the Other Governmental Funds was \$(426) in FY 2012-13 as compared to \$(11,357) in FY 2011-12.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were \$81 under budget, a variance of (0.6)%. Total General Fund tax revenues were 1.3% over budget, with property taxes (2.4%) below budget, and sales taxes over budget by 0.8%. The regular sales tax revenue was under budget by \$18, (0.4%), and the local ½ percent sales tax was over by \$72 (3.1%).

Total General Fund expenditures finished the year over budget by \$41.

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, 2013, the value of capital assets of the governmental activities, net of accumulated depreciation, totaled \$27,304, and the value of capital assets of the business-type activities, net of accumulated depreciation, totaled \$137,331. Depreciation on capital assets is recognized in the Government-Wide financial statements but not in the fund financial 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.

Additional information on the City of Ukiah’s capital assets can be found in Note 3(B) on pages 38-40 of this report.

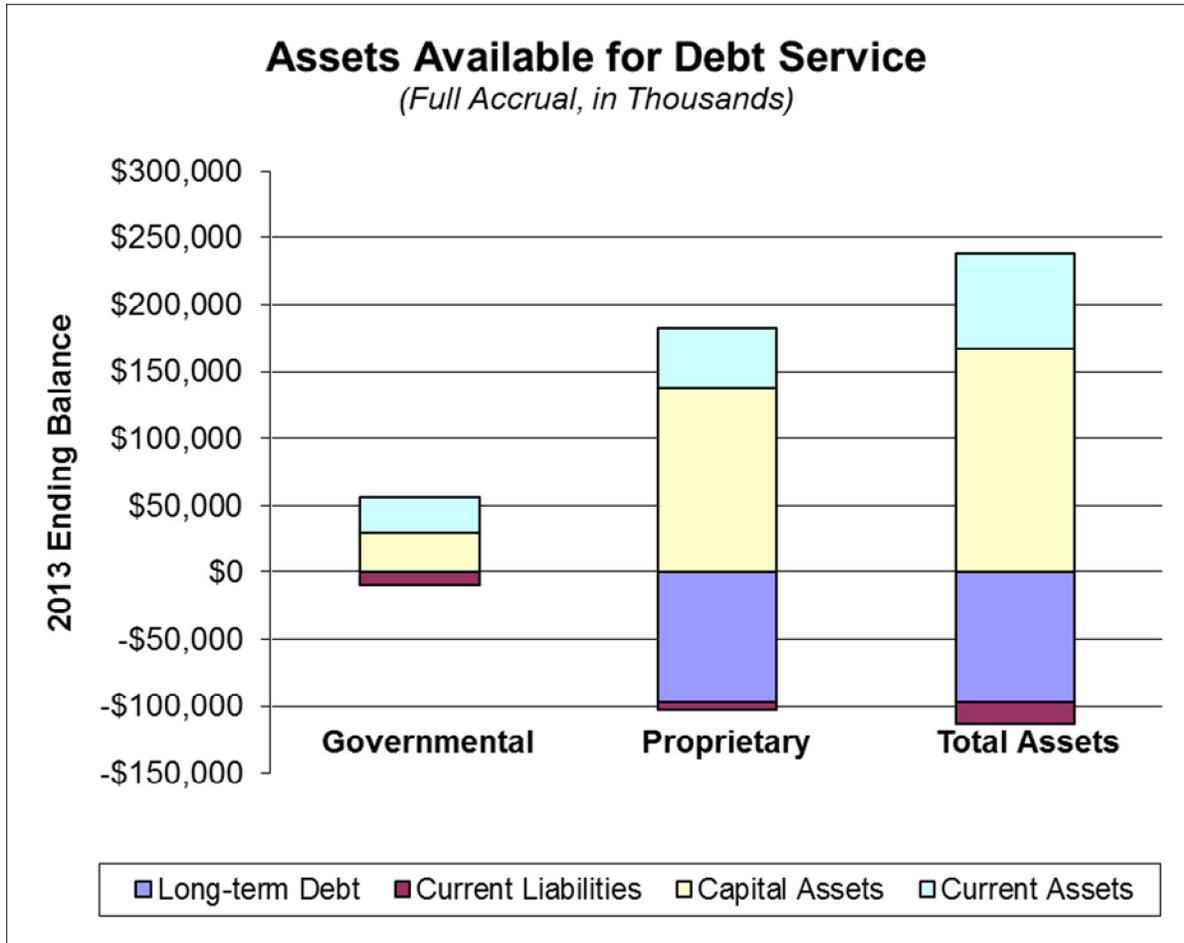
Table 6
Capital Assets (Net of Depreciation)
 June 30, 2013 and 2012
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	495	125	4,674	4,674	5,169	4,799
Land improvements	2,274	1,002	661	710	2,935	1,712
Buildings and improvements	3,577	3,721	33,610	34,731	37,187	38,452
Equipment, vehicles and machinery	2,305	2,508	3,298	3,611	5,603	6,119
Infrastructure	12,867	13,387	91,925	86,178	104,792	99,565
Construction in progress	5,786	5,906	3,163	11,514	8,949	17,420
Total	27,304	26,649	137,331	141,418	164,635	168,067

8. CURRENT LIABILITIES AND LONG-TERM DEBT

At year-end, the City of Ukiah’s current governmental activities liabilities were \$10,015 and current business-type liabilities were \$6,238. The City’s total governmental activities liabilities were \$10,015 and total business-type liabilities were \$103,227. The business-type liabilities include \$96,989 for the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total liabilities-to-net-position ratio of 91%, the same as FY2011-12.

Additional information on the City of Ukiah’s long-term liabilities can be found in Note 3(D) on pages 41-43 of this report.



9. NEXT YEAR’S BUDGET AND ECONOMIC FACTORS

The City General Fund budget for FY 2013-14 increased expenditures by \$354 and decreased revenues by \$151 from the FY 2012-13 actuals.

Budgeted Combined Public Safety and General Fund revenues for FY 2013-14 are \$922 above the actual revenues for FY 2012-13. The budgeted expenditures are \$164 below FY 2012-13 actual expenditures. These amounts include the revenue and expenditures related to the Measure “S” Sales Tax which is budgeted for \$42 decrease in FY 2013-14 as compared to the FY 2012-13 actual. The budget adopted for the combined Public Safety and General Funds for FY 2013-14 results in a projected decrease in fund balance of \$(1,566).

The Measure “S” Sales Tax revenues for FY 2013-14 are projected to be \$2,372. 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 \$8,558 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 Activity Funds

Based on the analysis of our sales tax consultants, the 2013-14 budget contains a projected sales tax increase of \$149 over the FY 2012-13 actual sales tax amount. Overall, the FY 2013-14 budget reflects another difficult year that local governments throughout California and the United States are facing.

Further reductions in operating expenses will be required to achieve a balanced budget for FY 2014-15 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 \$2,372 for the FY2013-14 budget year. Expenditures are broken into two categories: Police Department and Fire Department. Budgeted expenditures are \$8,558. 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 2013-14 is \$6,250 or \$1,230 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.

Business-Type Funds

Electric Utility: The Electric Utility expenditures are projected to increase slightly over the next year. A 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 2012-13 increased from \$4,936 to \$5,814. 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 9% went into effect July 2013 and an increase of 3% is scheduled for implementation in July 2014.

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 2012-13, \$643 was transferred 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 3.5% went into effect July 2013 and an increase of 6.8% is scheduled for implementation in July 2014.

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 (\$18), compared to a net loss of (\$20) in FY 2011-12 and a net gain of \$18 for FY 2010-11. Income continues to be less than operating expenses exclusive of 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 certified in January 2014. However, a lawsuit was filed in February 2014 placing the project on hold.

City Operations: In September 2013, the City implemented salary reductions of 5% for most labor units as a means of reducing expenditures. The reductions are in effect for a period of two years.

A lawsuit was filed by the Ukiah Valley Sanitation District (District) on October 18, 2013 seeking more that \$28 million in restitution for alleged overcharging of the District for services provided by the City pursuant to a series of agreements beginning in 1967. The City will rigorously defend itself against the claims of the District and does not expect an unfavorable outcome at this time.

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 2013-14 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 continue 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 at (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 POSITION
JUNE 30, 2013**

<u>ASSETS</u>	Governmental Activities	Business-Type Funds	Total
Cash and investments	\$ 14,734,523	\$ 38,040,677	\$ 52,775,200
Receivables (net)	7,189,324	5,183,641	12,372,965
Internal balances	1,400,797	(1,400,797)	-
Restricted Assets:			
Cash with fiscal agent	2,731,508	2,072,297	4,803,805
Prepaid expenses	10,298		10,298
Deposits	760	4,530	5,290
Inventory		998,137	998,137
Land primarily held for resale	2,435,114		2,435,114
Capital assets (net of accumulated depreciation)	27,304,019	137,330,921	164,634,940
Total Assets	55,806,343	182,229,406	238,035,749
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	3,206,829	785,611	3,992,440
Accrued interest payable		204,663	204,663
Liabilities payable from restricted assets		1,102,333	1,102,333
Unearned revenues - loans	4,373,236		4,373,236
Unearned revenues - real property held for resale	2,435,114		2,435,114
Customer deposits		7,362	7,362
Noncurrent Liabilities:			
Due within one year		4,138,054	4,138,054
Due in more than one year		96,988,867	96,988,867
Total Liabilities	10,015,179	103,226,890	113,242,069
<u>NET POSITION</u>			
Net investment in capital assets	27,304,019	44,514,348	71,818,367
Restricted for:			
Public safety	525,034		525,034
Streets and highways	2,320,202		2,320,202
Housing and community development	180,196		180,196
Debt service		2,027,529	2,027,529
Unrestricted	15,461,713	32,460,639	47,922,352
Total Net Position	\$ 45,791,164	\$ 79,002,516	\$ 124,793,680

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

CITY OF UKIAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue And Changes In Net Position			
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 2,956,582	\$ 1,005,296	\$ -	\$ -	\$ (1,951,286)	\$ -	\$ (1,951,286)
Public safety	10,514,943	1,224,421	134,067		(9,156,455)		(9,156,455)
Public works	2,109,273	368,895	647,153	86,319	(1,006,906)		(1,006,906)
Parks and recreation	2,481,572	1,072,615	52,981	164,673	(1,191,303)		(1,191,303)
Community development	1,254,265	456,294	403,754		(394,217)		(394,217)
Total Governmental Activities	<u>19,316,636</u>	<u>4,127,521</u>	<u>1,237,955</u>	<u>250,992</u>	<u>(13,700,168)</u>	<u>-</u>	<u>(13,700,168)</u>
Business-Type Activities:							
Electric	14,483,083	15,140,175				657,092	657,092
Water	3,651,349	5,813,699				2,162,350	2,162,350
Sewer	8,637,591	6,213,481				(2,424,110)	(2,424,110)
Disposal site	413,657	129,321				(284,336)	(284,336)
Street lighting	225,381	193,040				(32,341)	(32,341)
Airport	1,638,184	1,695,852	30,000			87,668	87,668
Parking	165,867	103,320	10,717			(51,830)	(51,830)
Golf course	274,689	194,644				(80,045)	(80,045)
Conference center	344,849	280,370				(64,479)	(64,479)
Total Business-Type Activities	<u>29,834,650</u>	<u>29,763,902</u>	<u>40,717</u>	<u>-</u>	<u>-</u>	<u>(30,031)</u>	<u>(30,031)</u>
Total	<u>\$ 49,151,286</u>	<u>\$ 33,891,423</u>	<u>\$ 1,278,672</u>	<u>\$ 250,992</u>	<u>(13,700,168)</u>	<u>(30,031)</u>	<u>(13,730,199)</u>
General Revenues:							
Taxes:							
Property					1,484,934		1,484,934
Sales and use					6,901,284		6,901,284
Property transfer					35,716		35,716
Transient occupancy					828,000		828,000
Business license					323,565		323,565
Franchise					569,892		569,892
From other agencies not restricted to specific programs					1,229,156		1,229,156
Use of money and property					91,117	200,899	292,016
Transfers					871,692	(584,482)	287,210
Total General Revenues, Special Items And Transfers					<u>12,335,356</u>	<u>(383,583)</u>	<u>11,951,773</u>
Change In Net Position					<u>(1,364,812)</u>	<u>(413,614)</u>	<u>(1,778,426)</u>
Net Position - beginning					47,155,976	80,595,975	127,751,951
Accumulative effect of accounting change - debt issue costs						<u>(1,179,845)</u>	<u>(1,179,845)</u>
Net Position - beginning as restated					47,155,976	79,416,130	126,572,106
Net Position - Ending					<u>\$ 45,791,164</u>	<u>\$ 79,002,516</u>	<u>\$ 124,793,680</u>

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

CITY OF UKIAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 4,721,456	\$ 8,777,707	\$ 13,499,163
Cash with fiscal agent - restricted		2,731,508	2,731,508
Receivables:			
Accounts (net)	486,565	36,676	523,241
Property taxes	928,607		928,607
Interest	35,187	37,966	73,153
Grants		1,108,419	1,108,419
Loans	3,348	4,373,236	4,376,584
Prepaid expenses	8,798	1,500	10,298
Due from other funds	15,410		15,410
Advances due from other funds	618,594		618,594
Land primarily held for resale		2,435,114	2,435,114
Total Assets	\$ 6,817,965	\$ 19,502,126	\$ 26,320,091
<u>LIABILITIES</u>			
Liabilities:			
Accounts payable	\$ 496,845	\$ 1,572,414	\$ 2,069,259
Accrued salaries and benefits	251,578	9,649	261,227
Accrued compensated absences	674,503		674,503
Contract retentions payable		6,833	6,833
Unearned revenues - loans		4,373,236	4,373,236
Unearned revenues - land primarily held for resale		2,435,114	2,435,114
Due to other funds		163,410	163,410
Total Liabilities	1,422,926	8,560,656	9,983,582
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues	121,133	804,790	925,923
Total Deferred Inflows of Resources	121,133	804,790	925,923
<u>FUND BALANCES</u>			
Fund Equity:			
Fund Balance:			
Non-spendable	619,044		619,044
Restricted		4,486,098	4,486,098
Committed	183,956	713,402	897,358
Assigned	89,859	5,832,173	5,922,032
Unassigned	4,381,047	(894,993)	3,486,054
Total Fund Balances	5,273,906	10,136,680	15,410,586
Total Liabilities, Deferred Inflows of Resources And Fund Balances	\$ 6,817,965	\$ 19,502,126	\$ 26,320,091

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 NET POSITION
JUNE 30, 2013**

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

Total Fund Balances	\$	15,410,586
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets		56,102,753
Less: Accumulated depreciation		(29,173,296)
Liabilities were reported for certain revenues that were not available to pay current period expenditures, and , therefore deferred in the funds.		
Deferred revenues - unearned		925,923
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 position.		
		2,525,198
Net Position Of Governmental Activities	\$	<u>45,791,164</u>

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

CITY OF UKIAH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Taxes:			
Property	\$ 1,484,934	\$ -	\$ 1,484,934
Sales and use	6,977,233		6,977,233
Property transfer	35,716		35,716
Transient occupancy	828,000		828,000
Business license	323,565		323,565
Franchise	569,892		569,892
Licenses and permits	272,070		272,070
Fines, forfeitures, and penalties	44,805	274,384	319,189
From other agencies	1,245,224	1,718,983	2,964,207
Use of money and property	154,959	69,170	224,129
Charges for current services	1,517,943	62,689	1,580,632
Other	(725)	244,379	243,654
Total Revenues	<u>13,453,616</u>	<u>2,369,605</u>	<u>15,823,221</u>
<u>EXPENDITURES</u>			
Current:			
General government	1,985,159	132,144	2,117,303
Public safety	9,447,647	384,213	9,831,860
Street and roads	1,059,401	352,044	1,411,445
Parks and recreation	1,961,691	365,773	2,327,464
Community development	648,972	556,492	1,205,464
Capital outlay	246,517	1,299,021	1,545,538
Total Expenditures	<u>15,349,387</u>	<u>3,089,687</u>	<u>18,439,074</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,895,771)</u>	<u>(720,082)</u>	<u>(2,615,853)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	1,266,757	1,413,897	2,680,654
Transfers out	(961,989)	(1,120,284)	(2,082,273)
Total Other Financing Sources (Uses)	<u>304,768</u>	<u>293,613</u>	<u>598,381</u>
Net Change In Fund Balances	<u>(1,591,003)</u>	<u>(426,469)</u>	<u>(2,017,472)</u>
Fund Balances, July 1,	6,864,909	10,563,149	17,428,058
Fund Balances, June 30,	<u>\$ 5,273,906</u>	<u>\$ 10,136,680</u>	<u>\$ 15,410,586</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, 2013**

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

Net change in fund balances - total governmental funds	\$ (2,017,472)
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	1,545,538
Depreciation	(1,184,093)
Donated capital assets that will be used in operations are never reported in governmental funds as the focus is on current financial resources. However, the government-wide financial statements report all assets:	
Donated land	329,000
Revenues not available to pay current expenditures are deferred in the funds:	
Deferred revenues - unearned	(322,053)
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	
	284,268
Change In Net Position Of Governmental Activities	<u>\$ (1,364,812)</u>

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

**CITY OF UKIAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

<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	\$ 9,533,290	\$ 3,622,522	\$ 15,157,203	\$ 8,728,087	\$ 999,575	\$ 38,040,677	\$ 1,235,360
Receivables:							
Accounts (net)	1,439,837	244,398	51,111	16,251	173,783	1,925,380	176,187
Unbilled	1,652,868	817,724	517,283		20,169	3,008,044	
Interest	49,280	18,728	77,914	45,129	5,166	196,217	3,133
Loans					6,000	6,000	
Due from other funds							148,000
Deposits		3,730			800	4,530	760
Inventory	915,459	82,678				998,137	
Total Current Assets	13,590,734	4,789,780	15,803,511	8,789,467	1,205,493	44,178,985	1,563,440
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,072,295		2			2,072,297	
Other Noncurrent Assets:							
Advances due from other funds							782,203
Loans receivable					48,000	48,000	
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	18,259,791	9,080,305	81,511,072		1,233,407	110,084,575	
Buildings and improvements	25,437,975	18,130,288	10,179,727		2,943,142	56,691,132	327,113
Licensed vehicles	1,327,705	409,432	546,573	101,296	114,221	2,499,227	26,574
Machinery and equipment	2,729,456	2,019,960	1,461,565	404,039	160,719	6,775,739	447,096
Less: Accumulated depreciation	(22,765,006)	(8,501,511)	(13,101,189)	(343,787)	(3,807,542)	(48,519,035)	(426,221)
Construction in progress	350,133	223,916	1,704,506		884,335	3,162,890	
Total Noncurrent Assets	28,851,772	21,561,722	83,092,977	861,202	5,083,545	139,451,218	1,156,765
Total Assets	42,442,506	26,351,502	98,896,488	9,650,669	6,289,038	183,630,203	2,720,205

continued

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

CITY OF UKIAH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
LIABILITIES							
Current Liabilities:							
Accounts payable	93,807	61,912	118,353	7,550	69,571	351,193	46,077
Accrued salaries and benefits	49,034	24,485	33,311	915	12,953	120,698	42,014
Accrued compensated absences	118,626	56,301	104,243	6,310	27,593	313,073	106,916
Contract retentions payable	647					647	
Accrued interest payable		194,744	7,529		2,390	204,663	
Customer deposits					7,362	7,362	
Current portion of long-term debt		468,200	2,169,854			2,638,054	
Total Current Liabilities	262,114	805,642	2,433,290	14,775	119,869	3,635,690	195,007
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,500,000					1,500,000	
Accrued interest payable	44,766		1,057,567			1,102,333	
Total Current Liabilities Payable From Restricted Assets	1,544,766	-	1,057,567	-	-	2,602,333	-
Noncurrent Liabilities:							
Advances from other funds		745,000			655,797	1,400,797	
Installment obligation (net of unamortized discount)		12,285,707	66,751,331			79,037,038	
State loans payable		1,255,451	814,801			2,070,252	
Revenue bonds payable (net of unamortized discount)	6,952,635					6,952,635	
Estimated landfill closure costs				8,928,942		8,928,942	
Total Noncurrent Liabilities	6,952,635	14,286,158	67,566,132	8,928,942	655,797	98,389,664	-
Total Liabilities	8,759,515	15,091,800	71,056,989	8,943,717	775,666	104,627,687	195,007
NET POSITION							
Net investment in capital assets	18,326,842	7,552,364	13,356,989	861,202	4,416,951	44,514,348	374,562
Restricted for debt service	2,027,529					2,027,529	
Unrestricted	13,328,620	3,707,338	14,482,510	(154,250)	1,096,421	32,460,639	2,150,636
Total Net Position	\$ 33,682,991	\$ 11,259,702	\$ 27,839,499	\$ 706,952	\$ 5,513,372	\$ 79,002,516	\$ 2,525,198

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

CITY OF UKIAH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<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>
<u>OPERATING REVENUES</u>							
Charges for current services	\$ 14,993,473	\$ 5,710,278	\$ 8,940,099	\$ 122,037	\$2,001,023	\$ 31,766,910	\$ 2,880,980
Licenses and permits					\$63,559	63,559	
Fines, forfeitures and penalties					39,761	39,761	
Other revenues	146,702	103,421	66,122	7,284	362,883	686,412	972,283
Total Operating Revenues	<u>15,140,175</u>	<u>5,813,699</u>	<u>9,006,221</u>	<u>129,321</u>	<u>2,467,226</u>	<u>32,556,642</u>	<u>3,853,263</u>
<u>OPERATING EXPENSES</u>							
Purchased power	7,982,892					7,982,892	
Operations	3,181,952	805,977	1,662,102	101,342	966,270	6,717,643	2,280,431
Maintenance		597,418	764,216	286,459	75,817	1,723,910	40,013
Fuels and lubricants					1,057,383	1,057,383	12,208
Utilities		335,659	320,107	13,108	263,306	932,180	16,536
General and administration	1,514,460	707,455	803,093		125,174	3,150,182	290,106
Insurance premiums and deductibles							1,184,417
Depreciation	1,151,923	591,738	1,892,642	12,748	128,801	3,777,852	35,593
Total Operating Expenses	<u>13,831,227</u>	<u>3,038,247</u>	<u>5,442,160</u>	<u>413,657</u>	<u>2,616,751</u>	<u>25,342,042</u>	<u>3,859,304</u>
Operating Income	<u>1,308,948</u>	<u>2,775,452</u>	<u>3,564,061</u>	<u>(284,336)</u>	<u>(149,525)</u>	<u>7,214,600</u>	<u>(6,041)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>							
Taxes					10,717	10,717	
From(To) other agencies			(2,792,740)		30,000	(2,762,740)	
Interest income	37,815	33,497	79,277	43,984	6,326	200,899	16,998
Interest expense and fiscal charges	(651,856)	(613,102)	(3,195,431)		(1,964)	(4,462,353)	
Loss from sale of capital assets					(30,255)	(30,255)	
Total Nonoperating Revenues (Expenses)	<u>(614,041)</u>	<u>(579,605)</u>	<u>(5,908,894)</u>	<u>43,984</u>	<u>14,824</u>	<u>(7,043,732)</u>	<u>16,998</u>
Income Before Transfers	694,907	2,195,847	(2,344,833)	(240,352)	(134,701)	170,868	10,957
Transfers in					477,645	477,645	273,311
Transfers out	(1,029,127)	(15,000)	(18,000)			(1,062,127)	
Change In Net Position	<u>(334,220)</u>	<u>2,180,847</u>	<u>(2,362,833)</u>	<u>(240,352)</u>	<u>342,944</u>	<u>(413,614)</u>	<u>284,268</u>
Total Net Position - beginning	34,103,787	9,446,340	30,928,116	947,304	5,170,428	80,595,975	2,240,930
Accumulative effect of accounting change - debt issue costs	(86,576)	(367,485)	(725,784)	-	-	(1,179,845)	-
Total Net Position - beginning as restated	<u>34,017,211</u>	<u>9,078,855</u>	<u>30,202,332</u>	<u>947,304</u>	<u>5,170,428</u>	<u>79,416,130</u>	<u>2,240,930</u>
Total Net Position - ending	<u>\$ 33,682,991</u>	<u>\$ 11,259,702</u>	<u>\$ 27,839,499</u>	<u>\$ 706,952</u>	<u>\$ 5,513,372</u>	<u>\$ 79,002,516</u>	<u>\$ 2,525,198</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, 2013**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:							
Receipts from customers and users	\$ 14,842,087	\$ 5,583,439	\$ 8,989,755	\$ 123,893	\$ 2,437,475	\$ 31,976,649	\$ 56,732
Receipts from interfund services provided							3,711,841
Payments to suppliers	(10,321,758)	(1,718,765)	(2,245,398)	(217,891)	(2,045,179)	(16,548,991)	(2,654,550)
Payments to employees	(1,741,037)	(524,834)	(1,037,897)	(22,139)	(437,179)	(3,763,086)	(1,232,213)
Payments for interfund services provided	(549,549)	(262,729)	(305,866)	(1,332)	(93,681)	(1,213,157)	
Net Cash Provided (Used) By Operating Activities	<u>2,229,743</u>	<u>3,077,111</u>	<u>5,400,594</u>	<u>(117,469)</u>	<u>(138,564)</u>	<u>10,451,415</u>	<u>(118,190)</u>
Cash Flows From Noncapital Financing Activities:							
Property taxes and subventions					10,680	10,680	
From(To) other agencies			(1,710,103)		30,000	(1,680,103)	
Advances from(to) other funds						-	-
Transfers in(out)	(1,029,127)	(15,000)	(18,000)		477,645	(584,482)	273,311
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(1,029,127)</u>	<u>(15,000)</u>	<u>(1,728,103)</u>	<u>-</u>	<u>518,325</u>	<u>(2,253,905)</u>	<u>273,311</u>
Cash Flows From Capital and Related Financing Activities:							
Acquisition and construction of capital assets	(426,194)	(279,693)	(158,112)			(863,999)	
Principal paid on capital debt	(1,410,000)	(453,632)	(2,098,499)			(3,962,131)	
Interest paid on capital debt	(625,312)	(622,148)	(3,189,995)		(1,964)	(4,439,419)	
Trustee fees	(5,414)					(5,414)	
Equipment loan payments			-		6,000	6,000	
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(2,466,920)</u>	<u>(1,355,473)</u>	<u>(5,446,606)</u>	<u>-</u>	<u>4,036</u>	<u>(9,264,963)</u>	<u>-</u>
Cash Flows From Investing Activities:							
Interest on investments	(11,465)	14,769	1,363	(1,145)	1,160	4,682	13,865
Net Cash Provided (Used) By Investing Activities	<u>(11,465)</u>	<u>14,769</u>	<u>1,363</u>	<u>(1,145)</u>	<u>1,160</u>	<u>4,682</u>	<u>13,865</u>
Net Increase (Decrease) In Cash	(1,277,769)	1,721,407	(1,772,752)	(118,614)	384,957	(1,062,771)	168,986
Cash Balance - beginning	12,883,354	1,901,115	16,929,957	8,846,701	614,618	41,175,745	1,066,374
Cash Balance - ending	<u>\$ 11,605,585</u>	<u>\$ 3,622,522</u>	<u>\$ 15,157,205</u>	<u>\$ 8,728,087</u>	<u>\$ 999,575</u>	<u>\$ 40,112,974</u>	<u>\$ 1,235,360</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, 2013

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Reconciliation of Cash Balance:							
Cash	\$ 9,533,290	\$ 3,622,522	\$ 15,157,203	\$ 8,728,087	\$ 999,575	\$ 38,040,677	\$ 1,235,360
Restricted cash with fiscal agent	2,072,295		2			2,072,297	
Cash Balance - ending	\$ 11,605,585	\$ 3,622,522	\$ 15,157,205	\$ 8,728,087	\$ 999,575	\$ 40,112,974	\$ 1,235,360
Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:							
Operating income (loss)	\$ 1,308,948	\$ 2,775,452	\$ 3,564,061	\$ (284,336)	\$ (149,525)	\$ 7,214,600	\$ (6,041)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:							
Depreciation	1,151,923	591,738	1,892,642	12,748	128,801	3,777,852	35,593
Decrease (Increase) in receivables	(298,088)	(230,260)	(16,466)	(5,428)	(29,751)	(579,993)	(88,281)
Decrease (Increase) in inventory	47,633	4,615				52,248	
Decrease (Increase) in deposits		300				300	
Decrease (Increase) in payables	19,327	(64,734)	(39,643)	159,547	(88,089)	(13,592)	(59,461)
Net Cash Provided (Used) By Operating Activities	\$ 2,229,743	\$ 3,077,111	\$ 5,400,594	\$ (117,469)	\$ (138,564)	\$ 10,451,415	\$ (118,190)
Non-Cash Transactions:							
Amortize capital debt discount (premium)	\$ 28,473	\$ (4,084)	\$ (2,265)	\$ -	\$ -	\$ 22,124	\$ -
Capital assets transferred to Ukiah Valley Sanitation District			(1,045,764)			(1,045,764)	
Loan accrued for capital assets sold					60,000	60,000	
Accrue additional landfill closure/postclosure costs				153,556		153,556	

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

**CITY OF UKIAH
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Private Purpose Trust	Agency Funds
<u>ASSETS</u>		
Assets:		
Cash and investments	\$ 9,034,877	\$ 7,607,285
Cash with fiscal agent	1,375,754	
Receivables:		
Accounts (net)	24,787	329,025
Unbilled		245,902
Interest	17,310	39,020
Deferred charges	705,126	
Real property held primarily for resale	3,730,238	
Capital assets	142,295	2,338,888
 Total Assets	 15,030,387	 \$ 10,560,120
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable	\$ 57,678	\$ 188,777
Accrued salaries and benefits	438,119	
Utility and other deposits	832,658	
Accrued interest payable	141,084	
Deferred revenues	705,126	
Due to Ukiah Valley Sanitation District		9,726,300
Due to Solid Wastes Systems		551,754
Due to Russian River JPA		93,289
Noncurrent Liabilities:		
Due within one year	910,000	
Due in more than one year	10,674,026	
 Total Liabilities	 13,758,691	 \$ 10,560,120
<u>NET POSITION</u>		
Held in trust for other purposes	\$ 1,271,696	

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

**CITY OF UKIAH
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Private Purpose Trust</u>
<u>Additions</u>	
Taxes	\$ 2,089,363
Use of money and property	5,110
Total Additions	<u>2,094,473</u>
<u>Deductions</u>	
Operating expenses	8,845
Contractual services	73,597
Governmental services	92,724
Payments to other governmental entities	615,046
Debt Service:	
Interest and fiscal charges	706,984
Transfer out	287,210
Total Deductions	<u>1,784,406</u>
Change in net position	<u>310,067</u>
Net Position - beginning	1,227,244
Accumulative effect of accounting change - debt issue costs	(265,615)
Net Position - beginning as restated	<u>961,629</u>
Net Position - ending	<u><u>\$ 1,271,696</u></u>

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 Unit. 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.

Ukiah Successor Agency – Through January 31, 2012, the Ukiah Redevelopment Agency (Agency) 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; and was reported as a component unit of the City of Ukiah. Effective February 1, 2012, the Agency was dissolved by the State of California legislature and, therefore, no longer exists as a separate entity. The City elected to serve as the Ukiah Successor Agency (“USA”) 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 USA 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 USA 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 non-fiduciary 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 fiduciary funds are excluded from the government-wide financial statements). Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 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.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

D) Adoption of New Pronouncement

Effective July 1, 2012, the City has adopted the accounting and reporting provisions prescribed in Governmental Accounting Standards Board ("GASB") Statements No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and No. 65 - *Items Previously Reported as Assets and Liabilities*. The City has determined that restatement of prior year financial statements was not practical and, therefore, the cumulative effect of applying these Statements has been reported as a restatement of beginning net position or fund balance. The resulting adjustment reduced beginning net position by \$1,179,845, from \$127,751,951 to a restated amount of \$126,572,106 due to the change in reporting debt issue costs as an expense in the period incurred.

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 \$3,008,044 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2013. 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, 2013.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$120,149 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.

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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, 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, 2013, 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 2.21 years vacation (a lower maximum applies to some employee labor groups). 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 City 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 net position. Long-term debt issue discounts and premiums 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 recognized as an expense in the year incurred.

9) Net Position/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 position and unrestricted – net position 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 position to have been depleted before unrestricted – net position are applied.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

The government-wide statement of net position reports \$5,052,961 of restricted net assets, of which \$881,971 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, STIP Augmentation, Federal Emergency Shelter Grant, CDBG, EDBG 94-333 Revolving Loan, Community Development, CDBG Program Income, and FEMA Grant. Budgets are adopted on a basis consistent with generally accepted accounting principles. 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 \$4,123,930 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 reapportioned and honored during the subsequent year.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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B) Excess Of Expenditures Over Appropriations

For the year ended June 30, 2013, the following fund had expenditures exceeding appropriations:

Expenditures Over Appropriations:	
Asset Seizure	\$ 131,152
Supplemental Law Enforcement	68,939
Museum	42,215

C) Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2013. 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:	
Anton Stadium	\$ 23,561
Observatory Park	35,179
Swimming Pool	98,005
Riverside Park	580,278
Museum Grants Prop 84	186
Local Law Enforcement Block Grant	16,123
ARC General Operating	14,035
2105 Gas Tax	5,429
STIP Augmnetation	49,576
Federal Emergency Shelter Program	12,806
EDBG 94-333 Revolving Loan	106
Prop 84 Grant	14,731
Capital Improvement	43,054
Redevelopment Capital Improvement	1,924

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 Position:	
Cash and investments	\$ 52,775,200
Restricted cash with fiscal agent	4,803,805
Statement of Fiduciary Net Position:	
Cash and investments	16,642,162
Cash with fiscal agent	1,375,754
Total Cash and Investments	<u>\$ 75,596,921</u>

Cash and investments consist of the following:

Cash on hand	\$ 2,700
Deposits with financial institutions	11,232,661
Investments	64,361,560
Total Cash and Investments	<u>\$ 75,596,921</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:

Authorized Investment Type	Maximum Maturity	Maximum Total of Portfolio	Maximum Investment On One Issuer
City of Ukiah Bonds	5 years	No limit	10%
U.S. Treasuries (notes, bonds, bills and other indebtedness)	5 years	No limit	None
Obligations of the State of California (warrants, notes and bonds)	5 years	No limit	10%
Local Agency Obligations (bonds, notes and other indebtedness)	5 years	No limit	10%
U.S. Agency Obligations	5 years	No limit	None
Bankers Acceptances	180 days	40%	10%
Commercial Paper (rated "A" or better)	270 days	25%	10%
Negotiable Certificates	5 years	30%	10%
Repurchase Agreements	365 days	No limit	10%
Reverse Repurchase Agreements (1)	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	\$50 million	10%
Time Deposits	5 years	25%	10%
Mortgage-Backed and Asset-Backed Securities (rated "AA" or better)	5 years	20%	10%

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

Authorized Investments – Debt Trustee Agreements

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

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

Interest Rate Risk

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

**CITY OF UKIAH
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As of June 30, 2013, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 7,953,656	2.20
U.S Treasury Bonds and Notes	33,559,074	2.05
U.S. Government Agency Bonds and Notes	8,161,758	2.19
Municipal and State Bonds	1,277,673	2.16
State Investment Pool (LAIF)	2,690,013	0.76
Money Market Funds	7,271,334	-
Held By Bond Trustee:		
Money Market Funds	3,448,052	-
Total Fair Value	\$ 64,361,560	
Portfolio Weighted Average Maturity		1.69

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, 2013, 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	\$ 7,953,656			\$ 3,874,672	\$ 4,078,984	
U.S Treasury Bonds and Notes	33,559,074	\$ 33,559,074				
U.S. Government Agency Bonds and Notes	8,161,758			8,161,758		
Municipal and State Bonds	1,277,673			868,296	409,377	
State Investment Pool	2,690,013					\$ 2,690,013
Money Market Funds	7,271,334		\$ 7,271,334			
Held By Bond Trustee:						
Money Market Funds	3,448,052		3,448,052			
Total Fair Value	\$ 64,361,560	\$ 33,559,074	\$ 10,719,386	\$ 12,904,726	\$ 4,488,361	\$ 2,690,013

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, 2013, 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
NOTES TO THE FINANCIAL STATEMENTS
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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 \$10,171,596, of which \$1,889,589 was covered by federal depository insurance. The \$8,282,007 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2013, 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	\$ 7,953,656
U.S Treasury Bonds and Notes	33,559,074
U.S. Government Agency Bonds and Notes	8,161,758
Municipal and State Bonds	1,277,673

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.

B) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

Government Activities:	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Nondepreciable Capital Assets:				
Land	\$ 125,345	\$ 369,995	\$ -	\$ 495,340
Construction in progress	5,905,902	1,206,043	1,325,767	5,786,178
Total Nondepreciable Capital Assets	<u>6,031,247</u>	<u>1,576,038</u>	<u>1,325,767</u>	<u>6,281,518</u>
Depreciable Capital Assets:				
Land improvements	1,870,365	1,325,767	-	3,196,132
Infrastructure	33,309,341	-	-	33,309,341
Buildings	6,372,666	-	-	6,372,666
Licensed vehicles	4,158,390	38,201	-	4,196,591
Machinery and equipment	3,286,989	260,299	-	3,547,288
Total Depreciable Capital Assets	<u>48,997,751</u>	<u>1,624,267</u>	<u>-</u>	<u>50,622,018</u>
Less: Accumulated Depreciation:				
Land improvements	(868,409)	(53,164)	-	(921,573)
Infrastructure	(19,922,715)	(519,815)	-	(20,442,530)
Buildings	(2,651,663)	(144,528)	-	(2,796,191)
Licensed vehicles	(2,803,741)	(305,076)	-	(3,108,817)
Machinery and equipment	(2,133,303)	(197,103)	-	(2,330,406)
Total Accumulated Depreciation	<u>(28,379,831)</u>	<u>(1,219,686)</u>	<u>-</u>	<u>(29,599,517)</u>
Depreciable Capital Assets, net	<u>20,617,920</u>	<u>404,581</u>	<u>-</u>	<u>21,022,501</u>
Governmental Activities Capital Assets, net	<u>\$ 26,649,167</u>	<u>\$ 1,980,619</u>	<u>\$ 1,325,767</u>	<u>\$ 27,304,019</u>

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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Business-Type Activities:	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Nondepreciable Capital Assets:				
Land	\$ 4,673,811	\$ -	\$ -	\$ 4,673,811
Construction in progress	11,513,528	709,682	9,060,318	3,162,892
Total Nondepreciable Capital Assets	16,187,339	709,682	9,060,318	7,836,703
Depreciable Capital Assets:				
Land improvements	1,884,900	-	-	1,884,900
Infrastructure	102,190,768	8,290,672	319,183	110,162,257
Buildings and improvements	56,691,132	-	-	56,691,132
Licensed vehicles	2,469,842	91,869	62,486	2,499,225
Machinery and equipment	6,980,177	62,257	266,695	6,775,739
Total Depreciable Capital Assets	170,216,819	8,444,798	648,364	178,013,253
Less: Accumulated Depreciation:				
Land improvements	(1,175,456)	(48,751)	-	(1,224,207)
Infrastructure	(16,012,160)	(2,230,575)	(6,383)	(18,236,352)
Buildings and improvements	(21,960,370)	(1,120,531)	-	(23,080,901)
Licensed vehicles	(2,139,197)	(117,702)	(62,486)	(2,194,413)
Machinery and equipment	(3,699,309)	(260,293)	(176,440)	(3,783,162)
Total Accumulated Depreciation	(44,986,492)	(3,777,852)	(245,309)	(48,519,035)
Depreciable Capital Assets, net	125,230,327	4,666,946	403,055	129,494,218
Business-Type Activities Capital Assets, net	\$ 141,417,666	\$ 5,376,628	\$ 9,463,373	\$ 137,330,921

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

Governmental Activities:	
General government	\$ 200,243
Public safety	324,203
Streets	613,350
Parks	61,610
Housing and community development	20,280
Total Depreciation Expense - Governmental Activities	\$ 1,219,686
Business-Type Activities:	
Electric	\$ 1,151,923
Water	591,738
Sewer	1,892,640
Disposal site	12,748
Airport	63,169
Parking	5,326
Golf course	13,410
Conference center	46,898
Total Depreciation Expense - Business-Type Activities	\$ 3,777,852

**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	\$ 263,507	\$ 94,383
Museum Prop 84 Nature Education	78,236	203,576
Talmage Road Corridor Improvements	142,001	339,842
ERP Software	627,075	136,839

C) Interfund Receivables, Payables And Transfers

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2013 is as follows:

<u>Due To(From) Other Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 15,410	\$ -
Nonmajor governmental funds		163,410
Internal service funds	148,000	
Total Due To(From) Other Funds	<u>\$ 163,410</u>	<u>\$ 163,410</u>

<u>Advances Due To(From) Other Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 618,594	\$ -
Water Fund		745,000
Nonmajor business-type funds		655,797
Internal service funds	782,203	
Total Advances Due To(From) Other Funds	<u>\$ 1,400,797</u>	<u>\$ 1,400,797</u>

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 \$148,000 has been included in due to(from) other funds.

<u>Interfund Transfers</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,266,757	\$ 961,989
Electric Fund		1,029,127
Water Fund		15,000
Sewer Fund		18,000
Private Purpose Trust Fund		287,210
Nonmajor governmental funds	1,413,897	1,120,284
Nonmajor business-type funds	477,645	
Internal service funds	273,311	
Total Transfers In(Out)	<u>\$ 3,431,610</u>	<u>\$ 3,431,610</u>

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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The General Fund transferred \$484,344 to the Museum Fund (a nonmajor special revenue fund), \$475,684 to the Golf Fund and \$1,961 to the Conference Center Fund (both nonmajor enterprise funds) to offset operational costs. The Electric Fund transferred \$1,029,127 to the General Fund representing payments in-lieu of taxes. The General Fund also received \$237,630 from various nonmajor Gas Tax Funds for costs incurred for streets and roads maintenance projects. The Sewer Fund and Water Fund transferred \$15,000 and \$18,000, respectively to the Special Projects Fund (nonmajor capital projects fund) for their proportionate share of capital outlays. A transfer of \$287,210 was made from the Payroll Posting Fund (private-purpose trust) to the Workers' Comp Fund (internal service) for future insurance premiums. The EDBG 94-333 Revolving Loan Fund and Community Development Fund (both nonmajor special revenue funds) transferred \$313,250 and \$355,238, respectively, to the Special Projects Fund for future development related projects.

D) Long-Term Debt

Changes in long-term liabilities

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Business-Type Activities:					
Electric revenue bonds payable	\$ 10,005,000	\$ -	\$ 1,410,000	\$ 8,595,000	\$ 1,500,000
Deferred amounts:					
Issuance discounts	(170,838)		(28,473)	(142,365)	
Net revenue bonds payable	9,834,162	-	1,381,527	8,452,635	1,500,000
Installment obligations payable:					
Water treatment plant	12,855,000		325,000	12,530,000	335,000
Wastewater treatment plant	70,200,000		1,720,000	68,480,000	1,780,000
Deferred amounts:					
Issuance premiums	148,387		6,349	142,038	
Net installment obligations payable	83,203,387	-	2,051,349	81,152,038	2,115,000
State loans:					
Water Resources - Water Treatment	1,517,283		128,632	1,388,651	133,200
Water Resources - Sewer Treatment	1,583,154		378,499	1,204,655	389,854
Total State loans	3,100,437	-	507,131	2,593,306	523,054
Landfill closure and post-closure	8,775,386	153,556	-	8,928,942	-
Total Business-Type Activities					
Long-Term Liabilities	\$ 104,913,372	\$ 153,556	\$ 3,940,007	\$ 101,126,921	\$ 4,138,054

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 \$142,365, at June 30, 2013 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$ 8,595,000

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:

**CITY OF UKIAH
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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, 2013 the installment obligation liability outstanding excluding the unamortized premium of \$90,707 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 12,530,000

Wastewater Treatment Plant – Dated March 1, 2006 the original amount of the obligation was \$75,060,000 and is secured with a pledge of net revenues from the City's wastewater system. The obligation principal is payable in annual installments beginning March 1, 2009 ranging from \$400,000 to \$4,690,000 through March 1, 2036. Interest payments commence September 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2013 the installment obligation liability outstanding excluding the unamortized premium of \$51,331 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 68,480,000

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 was \$3,599,009 and is payable over 30 years. At June 30, 2013, the balance of the loan was \$1,388,651. 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 was \$6,592,944, payable over 20 years. At June 30, 2013, the balance of the loan was \$1,204,655. Principal and interest are payable annually on April 15th with the interest rate being 3.0%.

Rate Covenant Compliance. Several long-term obligations of the City include revenue coverage requirements established for the security of the bond holders. For the year ended June 30, 2013, the City did not meet the net revenue coverage requirement for the Electric Revenue Bonds by \$45,032. Management does not believe the coverage shortfalls will have a negative impact the actual payment of the obligations, but will monitor and adjust rates as needed to ensure compliance in future periods.

Landfill Closure And Postclosure Costs. As more fully discussed in Note 4(D), long-term liabilities include \$8,928,942 which has been accrued for future landfill closure and postclosure costs.

Debt service requirements for future years, excluding landfill closure and postclosure costs, are as follows:

Year Ended June 30,	Business-Type Activities					
	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,500,000	\$ 537,188	\$ 523,054	\$ 84,976	\$ 2,115,000	\$ 3,612,123
2015	1,610,000	443,438	539,591	68,438	2,200,000	3,527,048
2016	1,710,000	342,812	556,311	51,719	2,290,000	3,438,492
2017	1,825,000	235,937	148,259	33,776	2,385,000	3,346,225
2018	1,950,000	121,875	153,648	28,388	2,480,000	3,250,143
2019-2023	-	-	672,443	55,702	14,095,000	14,611,902
2024-2028	-	-	-	-	17,550,000	11,236,762
2029-2033	-	-	-	-	22,025,000	6,824,564
2034-2038	-	-	-	-	15,870,000	1,463,925
	<u>\$ 8,595,000</u>	<u>\$ 1,681,250</u>	<u>\$ 2,593,306</u>	<u>\$ 322,999</u>	<u>\$ 81,010,000</u>	<u>\$ 51,311,184</u>

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Long-Term Debt - Ukiah Successor Agency

As previously described the Ukiah Successor Agency ("USA") to the Former Ukiah Redevelopment Agency ("RDA") is responsible to windup the affairs of the former RDA. At the time of the dissolution of the RDA, there were three (3) outstanding bond series outstanding which are now being administered by the USA. In future fiscal years, bond payments will be made by assets held with the USA 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, 2013, the total balance of the bonds outstanding was \$11,845,000 which has been reported 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 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 \$3,995,000 at June 30, 2013.

Ukiah Redevelopment Project Tax Allocation Bonds, Series 2011A. On March 8, 2011, the former RDA issued \$5,180,000 Tax Allocation Bonds, 2011 Series A. The bonds were a special obligation of the RDA 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 were to 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 \$4,675,000 at June 30, 2013.

Ukiah Redevelopment Project Taxable Tax Allocation Housing Bonds, Series 2011B. On March 8, 2011, the former RDA issued \$3,250,000 Taxable Tax Allocation Bonds, 2011 Series B. The bonds were a special obligation of the RDA payable solely from RDA 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 were to 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 \$3,175,000 at June 30, 2013.

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, 2013**

F) Nonspendable, Restricted, Committed And Assigned Fund Balance

	<u>Non-Spendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>
General Fund:				
General government	\$ -	\$ -	\$ 101,640	\$ 50,147
Public safety			72,210	21,962
Streets and roads			10,106	7,704
Parks and recreation				10,046
Long-term receivables	618,594			
Petty cash	450			
Total General Fund	<u>619,044</u>	<u>-</u>	<u>183,956</u>	<u>89,859</u>
Non-Major Governmental Fund:				
General government				1,764,161
Public safety		525,035	158,241	677,833
Streets and roads		891,661	506,674	2,573,382
Parks and Recreation		157,190	48,487	95,777
Community development		2,899,662		721,020
Low/Moderate income housing		12,550		
Total Non-Major Governmental Funds	<u>-</u>	<u>4,486,098</u>	<u>713,402</u>	<u>5,832,173</u>
Total	<u>\$ 619,044</u>	<u>\$ 4,486,098</u>	<u>\$ 897,358</u>	<u>\$ 5,922,032</u>

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), \$9,990,000 (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, 2013, was \$627,228 which management believes is adequate to finance the City's share of any losses.

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

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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) – NCPA has 14 members including municipal electric utilities, a port authority, an irrigation district, a public utility district, a transportation district; and one associate member entity. 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, 2013, the City paid \$7,982,892 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, 2013, the City's balance held in the reserve was \$9,788,848. Due to the nature of the reserve held by NCPA, payments made to the reserve are expensed as purchased power.

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

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

Redwood Empire Municipal Insurance Fund (REMIF) - A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and worker's compensation insurance. A Commission comprised of one member appointed by each member city administers the Authority. As explained previously, the City provides for its general and workers' compensation insurance needs through REMIF. Annual premiums paid to the Authority were \$1,184,417. During the year, the City received distribution from REMIF totaling \$56,732 for surplus funds within REMIF's liability insurance program.

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

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

C) Contingencies – Subsequent Event

The City received a claim from the Ukiah Valley Sanitation District (“District”) seeking \$15,991,772 plus prejudgment interest alleging that the City overcharged the District for services provided by the City pursuant to a series of agreements, beginning in 1967. The District has alleged that the City has breached various clauses in each of the agreements and amendments entered into from 1967 through 2011. The City rejected the claim as it was not filed within a year of when the District contends its causes of action accrued and is, therefore, time barred. On October 18, 2013, the District filed a lawsuit seeking more than \$28 million in restitution. The City will vigorously defend itself against the claims of the District, and does not expect an unfavorable outcome at this time.

Amounts received 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 \$8,828,942 (including \$886,731 for corrective action liability) as of June 30, 2013, 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, 2013, 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, 2013, held \$9,034,022 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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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 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 2012/13 were 25.12% for miscellaneous employees, 35.02% for police, and 30.96% 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 2012/13 the City's annual pension cost was \$3,151,073 (\$2,038,799 for Miscellaneous, \$782,983 for Police and \$329,291 for Fire) and the City actually contributed \$3,151,073. In addition, the City paid \$281,233 representing a portion of the employees' required contributions under the terms of the City's various employee bargaining unit agreements. The annual required contribution for fiscal year 2012/13 was determined as part of the June 30, 2010, actuarial valuation.

Three-Year Trend Information					
Year Ending	Annual Pension Cost			Percentage	Net Pension
June 30,	Miscellaneous	Police	Fire	Contributed	Obligation
2011	\$ 1,662,180	\$ 613,093	\$ 314,284	100%	\$ -
2012	1,826,673	730,621	349,759	100%	-
2013	2,038,799	782,983	329,291	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 initial unfunded actuarial liability was amortized as a level percentage of pay based on the Plan's entry into CalPERS. Subsequent Plan amendments are amortized over a 20-year closed period. Plan gains and losses are amortized over a 30-year rolling period, which results in an amortization of about 6% annually. 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, 2012 (the latest actuarial valuation date), the remaining average amortization period was 25 years for Miscellaneous, 25 years for Police, and 23 years for Fire.

	Miscellaneous	Police	Fire
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	3.30% - 14.20%	3.30% - 10.90%	3.30% - 10.50%
Inflation	2.75%	2.75%	2.75%
Payroll growth	3.00%	3.00%	3.00%

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

Plan Changes:

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation, which sets the 2015-16 contribution rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

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 No. 32 and, therefore, the assets and liabilities of these plans have been excluded from the accompanying financial statements.

H) Golf Course Lease

Effective on July 1, 2012, the City has entered into an operating lease agreement for the use and maintenance of the City's municipal golf course. Under the terms of the agreement, the lessee will manage, operate, repair and maintain the course for public use. The lessee will determine and set user fees, and purchase and/or lease all furnishings, equipment, tools and operating supplies necessary or desirable for the operation of the facility. The initial term of the lease is ten (10) years, but grants the lease an option to extend the agreement for two (2) additional five (5) year periods. Upon termination of the lease, possession of the facility returns to the City including any tenant improvements.

Rents for the facility are based on a percentage of the adjusted gross revenues generated by the lessee for operating the facility on a sliding scale for green fees (10% - 20%) and fixed rate (10%) from merchandise and concessions. As part of the agreement, the lessee will also purchase various personal property items associated with the operations of the facility for \$60,000, to be paid in 120 equal installments of \$500. The agreement also requires the lessee to reimburse the City for certain labor costs, and requires an annual \$40,000 contribution to a Capital Improvement Project Fund. For the year ending June 30, 2013, the City received \$176,286 under the terms of this agreement.

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, 2013**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<u>REVENUES</u>				
Taxes:				
Property	\$ 1,317,439	\$ 1,522,003	\$ 1,484,934	\$ (37,069)
Sales and use	6,600,342	6,920,929	6,977,233	56,304
Property transfer	24,000	24,000	35,716	11,716
Transient occupancy	750,000	750,000	828,000	78,000
Business license	300,900	300,900	323,565	22,665
Franchise	572,400	572,400	569,892	(2,508)
Licenses and permits	122,655	211,621	272,070	60,449
Fines, forfeitures, and penalties	51,000	51,000	44,805	(6,195)
From other agencies	1,320,507	1,236,712	1,245,224	8,512
Use of money and property	197,140	197,140	154,959	(42,181)
Charges for current services	1,498,700	1,748,700	1,517,943	(230,757)
Other	(800)	(800)	(725)	75
Total Revenues	<u>12,754,283</u>	<u>13,534,605</u>	<u>13,453,616</u>	<u>(80,989)</u>
<u>EXPENDITURES</u>				
Current:				
General government	2,031,406	2,457,493	1,985,159	472,334
Public safety	9,203,065	9,218,187	9,447,647	(229,460)
Streets and roads	869,121	880,514	1,059,401	(178,887)
Parks and recreation	1,780,598	1,797,098	1,961,691	(164,593)
Community development	588,714	622,830	648,972	(26,142)
Capital outlay	369,000	332,150	246,517	85,633
Total Expenditures	<u>14,841,904</u>	<u>15,308,272</u>	<u>15,349,387</u>	<u>(41,115)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,087,621)</u>	<u>(1,773,667)</u>	<u>(1,895,771)</u>	<u>(122,104)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,100,000	1,100,000	1,266,757	166,757
Transfers out	-	(484,344)	(961,989)	(477,645)
Total Other Financing Sources (Uses)	<u>1,100,000</u>	<u>615,656</u>	<u>304,768</u>	<u>(310,888)</u>
Net Change In Fund Balances	(987,621)	(1,158,011)	(1,591,003)	(432,992)
Fund Balances, July 1,	6,864,909	6,864,909	6,864,909	-
Fund Balances, June 30,	<u>\$ 5,877,288</u>	<u>\$ 5,706,898</u>	<u>\$ 5,273,906</u>	<u>\$ (432,992)</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]
06/30/10	\$ 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%
06/30/12	46,891,536	67,126,262	20,234,726	69.9%	8,146,799	248.4%

COMBINING FINANCIAL STATEMENTS
PRIVATE PURPOSE TRUST FUNDS

**CITY OF UKIAH
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2013**

	<u>Ukiah Successor Agency</u>	<u>Special Deposit</u>	<u>Payroll Posting</u>	<u>Business Improvement</u>	<u>Total</u>
<u>ASSETS</u>					
Assets:					
Cash and investments	\$7,736,940	\$860,070	\$433,024	\$4,843	\$9,034,877
Cash with fiscal agent	1,375,754				1,375,754
Receivables:					
Accounts (net)		20,764	4,023		24,787
Interest	17,285			25	17,310
Deferred charges	705,126				705,126
Real property held primarily for resale	3,730,238				3,730,238
Capital assets	142,295				142,295
Total Assets	<u>13,707,638</u>	<u>880,834</u>	<u>437,047</u>	<u>4,868</u>	<u>15,030,387</u>
<u>LIABILITIES</u>					
Liabilities:					
Accounts payable	5,252	48,176		4,250	57,678
Accrued salaries and benefits	1,072		437,047		438,119
Utility and other deposits		832,658			832,658
Accrued interest payable	141,084				141,084
Deferred revenues	705,126				705,126
Noncurrent Liabilities:					
Due within one year	910,000				910,000
Due in more than one year	10,674,026				10,674,026
Total Liabilities	<u>12,436,560</u>	<u>880,834</u>	<u>437,047</u>	<u>4,250</u>	<u>13,758,691</u>
<u>NET POSITION</u>					
Held in trust for other purposes	<u>\$ 1,271,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 618</u>	<u>\$ 1,271,696</u>

CITY OF UKIAH
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Ukiah Successor Agency	Special Deposit	Payroll Posting	Business Improvement	Total
<u>Additions</u>					
Taxes	\$ 2,067,247	\$ -	\$ -	\$ 22,116	\$ 2,089,363
Use of money and property	5,095			15	5,110
Total Additions	<u>2,072,342</u>	<u>-</u>	<u>-</u>	<u>22,131</u>	<u>2,094,473</u>
<u>Deductions</u>					
Operating expenses	8,845				8,845
Contractual services	55,364			18,233	73,597
Governmental services	88,936			3,788	92,724
Payments to other governmental entities	615,046				615,046
Debt Service:					
Interest and fiscal charges	706,984				706,984
Transfers out			287,210		287,210
Total Deductions	<u>1,475,175</u>	<u>-</u>	<u>287,210</u>	<u>22,021</u>	<u>1,784,406</u>
Change in net position	<u>597,167</u>	<u>-</u>	<u>(287,210)</u>	<u>110</u>	<u>310,067</u>
Net Position - beginning	939,526	-	287,210	508	1,227,244
Accumulative effect of accounting change - debt issue costs	(265,615)				(265,615)
Net Position - beginning as restated	<u>673,911</u>	<u>-</u>	<u>287,210</u>	<u>508</u>	<u>961,629</u>
Net Position - ending	<u>\$ 1,271,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 618</u>	<u>\$ 1,271,696</u>

OTHER COMPLIANCE REPORTS



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

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

**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, 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, 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, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ukiah's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Ukiah's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Ukiah's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency 2013-01 described in the accompanying *schedule of findings and responses* to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of findings and responses* to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ukiah'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Ukiah's response to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. The City's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



We noted certain other matters that we reported to management of the City of Ukiah in a separate letter dated July 28, 2014.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Hammon & Co.

July 28, 2014

CITY OF UKIAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

A) Summary of Audit Results

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements.
- 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) The City of Ukiah's total expenditures of federal financial expenditures were less than \$500,00 and, therefore, the City was exempt from the single audit requirements of OMB Circular A-133.

B) Findings – Financial Statement Audit

2013-01 Reconciliations of Pooled Cash and Investments

Criteria – The City's internal control system should include procedures that regularly and consistently reconcile pooled cash and investments to amounts recorded in the City's books and accounts.

Statement of Condition – The City did not finalize the reconciliation of pooled cash and investments for most of the year ended June 30, 2013, until May, 2014. Amounts were tracked and monitored by City staff during the entire period, but amounts were not tied to the balances recorded in the general ledger in a timely manner.

Questioned Costs – \$-0-

Perspective Information – When the City converted to new accounting and financial software, a new Pooled Cash Fund was created to account for the cash and investment activities of the City. The purpose of this fund is to 1) report the amount of cash and investments held by the City and 2) report the amount of each individual funds share of the pool balance.

Cause – With the great amount of staff resources dedicated to the launch and implementation of the new financial and accounting software, the actual step to reconcile cash and investment balances was not done.

Effect – The books of the City did not accurately reflect and report the assets of the City. Controls over cash and investment activities would not permit City staff to identify and correct errors in a timely manner. In addition, the City's allocations of investment earnings to individual funds were delayed until pooled cash amounts were reconciled.

Recommendation – The City should establish, monitor and enforce a policy which requires cash and investments to be reconciled at the end of each and every month by the last day of the immediately following month.

Views of Responsible Officials – The position of Finance Director was not permanently filled during the time in question. The City has taken action and filled the position. The New finance Director has placed a time schedule on reconciliations. Reconciliations are scheduled to be done by the 15th of the following month and will not be any later than the last day of the following month.

2013-02: Noncompliance with Rate Covenants

Criteria – As part of the City's long-term debt obligations, the City has entered into several utility rate covenants whereby electric, water and sewer rates would be maintained at a levels sufficient to provide net revenues in excess of utility operating and debt service costs. Each obligation has slight variances in the terms and amounts used to compute the coverage requirements, but in each instance net revenues must exceed certain levels.

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Statement of Condition – We noted that the Electric 1992 Series Revenue Bonds (“Electric Bonds”) did not meet the required coverage requirements.

Perspective Information - The Electric Bonds met the gross revenue coverage requirement, but fell short of the net revenue requirement by \$45,034.

Cause – The revenues of both the Electric Utility were less than amounts anticipated during the budget process. The City has actively promoted conservation of the use of electricity resulting in some decreases in utility revenues.

Effect – Upon written notice of the noncompliance by the Electric Bonds trustee, the City will have 90 days to respond that in its reasonable opinion the failure can be corrected. If, after receiving written notice of nonperformance, the City does not take reasonable steps to cure the failure, an event of default can be declared.

Recommendation - The City needs to monitor Electric system rates and charges in relation to costs and expenses to ensure compliance with the revenue covenants.

Views of Responsible Officials – The position of Finance Director was not permanently filled during the time in question. The City has taken action and filled the position. Both the New Director of Finance and Electric Utility Director have taken the initial steps to start a rate study and increase rates for the future in order to meet rate covenants.

C) Status of Prior Year Findings and Questioned Costs

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.

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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.

On April 26, 2013, the DOF issued the City a "Finding of Completion" letter wherein the DOF concurs that the former RDA has made full payment of amounts determined under Section 34179.6, subdivisions (d) or (e) and Section 34183.5, therefore this matter is resolved.

**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, 2013. 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: Our procedures noted that the population options used in the Appropriation Limit worksheets were different than the population options listed in the resolution as adopted by the recorded vote of the City Council. The worksheets used the population change of the City of Ukiah, and the resolution listed the population change for Mendocino County.

- 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.

July 28, 2014