

**CITY OF UKIAH
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2011

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JUNE 30, 2011**

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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, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ukiah's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah as of June 30, 2011 and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Ukiah Redevelopment Agency is a component unit of the City of Ukiah. As explained further in Note 4(I), the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. Unless the California State Legislature takes additional action, the Ukiah Redevelopment Agency will be dissolved effective February 1, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012, on our consideration of the City of Ukiah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

Davis Hammon & Co.

January 23, 2012

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, 2011. Please read it in conjunction with the accompanying basic financial statements.

This Analysis is organized into ten topics, moving from highlights of 2011, through descriptions of the financial statements and analysis of the selected information. The final topics discuss some of the City's financial processes and the upcoming budget outlook.

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

1. FINANCIAL HIGHLIGHTS

- The City's total net assets increased 1.9% to \$124,972 from \$122,642 a year ago.
- Governmental net assets ended the year at \$48,715 up 4.4% from \$46,670 in the prior year while net assets for Business Type activities were up less than 1% to \$76,257 from \$75,972 in 2010.
- Total tax revenue, other governmental revenues and business activity revenues exceeded expenses by \$1,782.
- General Fund expenditures exceeded revenues and other financing sources and uses by \$150 (*actual dollar amount*).
- Total revenues from all sources were \$51,261, down from \$52,735 in the prior year.
- The total cost of all activities was \$49,120, down from the prior year at \$51,058.

2. USING THIS ANNUAL REPORT

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

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

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

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

Each of these basic financial statements is further described below:

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

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

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

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

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

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

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

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

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

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

We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* through reconciling schedules. The bottom of the Balance Sheet on page 20 explains the changes from accrual based net assets to financial-asset based fund balances. Page 22 explains the differences in the *change* in fund balance from current year activity between accrual based and financial-asset based reporting.

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

3. FINANCIAL ANALYSIS OF GOVERNMENT WIDE STATEMENTS

The Summary of Net Assets (Table 1) and Changes in Net Assets (Table 2) present the City's governmental and business activities in total for the years ending June 30, 2011 and June 30, 2010.

Table 1
Summary of Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	42,740	34,331	46,158	54,510	88,898	88,841
Capital assets	30,373	26,523	142,221	138,049	172,594	164,572
Total assets	73,113	60,854	188,379	192,559	261,492	253,413
Liabilities:						
Long-term debt outstanding	12,402	4,477	104,711	108,885	117,113	113,362
Other liabilities	11,996	9,707	7,411	7,702	19,407	17,409
Total liabilities	24,398	14,184	112,122	116,587	136,520	130,771
Net assets:						
Invested in capital assets net of debt	17,408	31,547	40,267	33,203	57,675	64,750
Restricted	17,276	7,575	2,172	2,007	19,448	9,582
Unrestricted	14,031	7,548	33,818	40,762	47,849	48,310
Total net assets	48,715	46,670	76,257	75,972	124,972	122,642

The City's combined net assets for the fiscal year ended June 30, 2011 were \$124,972. The City accounts for its utilities, including electric, water, and sewer as enterprise funds. The airport, parking district, solid waste disposal site, golf course, conference center, and street lighting system are also accounted for as enterprise funds. These enterprise funds are categorized as Business Activities on Table 1.

The City's net assets for governmental activities increased 4% from \$46,670 to \$48,715, while business-type activities net assets increased less than 1% from \$75,972 to \$76,257. Legally unrestricted governmental net assets included assets in special revenue funds received for specific purposes, accumulated for capital projects, designated in redevelopment for capital projects, and designated in redevelopment for outside agencies.

Several transfers are included in the Citywide Statement of Activities. \$1,030 was transferred to the General Fund from the Electric Utility in lieu of taxes that would be charged to an outside provider. This amount is calculated at 7% of electric revenues. The Park Development Fund received \$224 from the Public Benefits Fund to finance park-related improvements.

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 2010-11, transfers were made to the Rate Stabilization-City Fund (\$1,311) from the City Sewer Fund and the Ukiah Valley Sanitation District Rate Stabilization Fund (\$1,186) from the Sanitation District Sewer Fund for stabilizing rates and meeting bond coverage requirements.

Table 2
Statement of Change in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(Full Accrual, in Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		2011	2010
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	4,487	4,297	28,395	27,779	32,882	32,076
Operating grants and contributions	1,321	1,011	10	20	1,331	1,031
Capital grants and contributions	2,430	2,721		1,738	2,430	4,459
Other						
Taxes	12,414	12,481			12,414	12,481
From other agencies not restricted to specific programs	1,312	1,296			1,312	1,296
Use of money and property	173	301	719	1,091	892	1,392
Total Revenues	22,137	22,107	29,124	30,628	51,261	52,735
Expenses:						
General government	2,480	2,838			2,480	2,838
Public safety	9,595	9,182			9,595	9,182
Public works	3,098	1,578			3,098	1,578
Community Services (Parks & Rec.)	2,466	1,985			2,466	1,985
Community Development	3,599	10,308			3,599	10,308
Interest on long-term debt	451	317			451	317
Electric			12,859	14,901	12,859	14,901
Water			3,290	3,630	3,290	3,630
Sewer			8,329	3,301	8,329	3,301
Solid Waste Disposal Site (closed)			196	381	196	381
Street Lighting			182	184	182	184
Airport			1,124	1,043	1,124	1,043
Parking District			165	143	165	143
Golf Course			947	941	947	941
Conference Center			339	326	339	326
Total Expenses	21,689	26,208	27,431	24,850	49,120	51,058
Increase N.A. before Trfrs	448	(4,101)	1,693	5,778	2,141	1,677
Special Item-transfer to other agency	(359)	(1,746)			(359)	(1,746)
Transfers	1,408	1,012	(1,408)	(1,012)	-	-
Change in Net Assets	1,497	(4,835)	285	4,766	1,782	(69)
Beginning Net Assets	46,670	51,505	75,972	71,206	122,642	122,711
Prior period adj	547				547	
Beginning Net Assets-restated	47,217	51,505	75,972	71,206	123,189	122,711
Ending Net Assets	48,714	46,670	76,257	75,972	124,971	122,642

Governmental Activities

Table 3 presents the cost of each of the City's major governmental programs for FY 2010-11 and FY 2009-10.

Table 3
Cost of Governmental Activities
 For the Fiscal Years Ended June 30, 2011 and 2010
(Full Accrual, in Thousands)

	Total Cost to Provide Services		Cost Change	Percentage Change
	2011	2010		
General Government	2,480	2,838	(358)	-13%
Public Safety	9,595	9,182	413	4%
Public Works	3,098	1,578	1,520	96%
Parks & Recreation	2,466	1,985	481	24%
Community Development	3,599	10,308	(6,709)	-65%
Debt service interest	451	317	134	42%
	21,689	26,208	(4,519)	-17%

On a full accrual basis, including financing and capital costs as reported under GASB 34, the City's total governmental costs decreased by 17%. The decreases in General Government and Community Development were offset in part by increases in Public Safety, Public Works, Parks & Recreation and Debt Service. Governmental expenses reflect a wide variety of projects and on-going activities, many of which are supported in part by program fees or other funding sources.

The City's PERS retirement benefits costs decreased by \$85 from 2010 to 2011 (to \$2,590 from \$2,675).

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

Public Safety is the largest component of general government, mostly in direct wages paid to safety personnel and capital fire & emergency equipment. In police, salaries and overtime decreased \$212. Fire salaries and overtime decreased by \$95. Increased cost of depreciation expense and Internal Services offset the reduction in salaries.

Public Works primarily consists of engineering, streets, and public rights of way maintenance. Projects in FY 2010-11 included the realignment of Gobbi, Oak Manor and Babcock streets as well as the rehabilitation of South Dora Street.

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

Community Development is primarily grant-funded projects and activities of the Redevelopment Agency. FY 2010-11 expenses included \$473 by the Ukiah Redevelopment Agency to the Ukiah Unified School District, and a payment to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF) in the amount of \$359.

Business Type Activities

The City's net assets for business-type activities in continuing operations resulted in a \$1,062 increase in net assets or 4% of total revenues (before revenue from the use of money and property and transfers to other funds), compared with a \$5,001 increase, or 17% in 2010. 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, 2011 and 2010
 (Full Accrual, in Thousands)

	Operating Expenses		Operating Revenue		Increase (decrease) From Operations			
	2011	2010	2011	2010	2011		2010	
Electric	12,859	14,901	15,315	15,148	2,456	16%	247	2%
Water	3,290	3,630	4,040	2,698	750	19%	(932)	35%
Sewer	8,329	3,301	6,423	8,584	(1,906)	30%	5,283	62%
Street Lights	182	184	191	198	9	5%	14	7%
Airport	1,124	1,043	994	1,451	(130)	13%	408	28%
Parking	165	143	130	163	(35)	27%	20	12%
Golf Course	947	941	895	939	(52)	-6%	(2)	0%
Conference Center	339	326	309	289	(30)	10%	(37)	13%
Total	27,235	24,469	28,297	29,470	1,062	4%	5,001	17%
<u>Closed Program</u>								
Solid Waste Disposal Site	196	381	108	67	(88)		(314)	

Electricity purchase costs decreased from \$9,186 last year to \$6,517 in FY 2010-11, while rates charged by the utility were held constant.

Annual water revenue was up 50% from the prior year reflecting the increased water rates offset in part by continued water conservation. The interest and depreciation expenses increased as a result of capital projects to increase system peak storage and delivery capacity.

The Conference Center was unable to fully fund its operating expenses, before depreciation, in FY 2010-11. Management will continue its effort to improve marketing, restructure operations and reduce operating costs in relation to revenue, but revenues continue to be impacted by the economic down turn.

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

4. FINANCIAL ANALYSIS OF THE FUND STATEMENTS

Governmental Funds

The voter approved one-half percent sales tax went into effect in October 2005. This tax increased to \$2,154 from \$2,014 in FY 2009-10. There was a decline in business license fees and property tax received. The total increase in governmental revenues was 1%. Table 5 summarizes the major revenue classifications used for taxes and other governmental revenues, expenditures, transfers, and changes in fund balances:

Table 5
Revenue, Expenditure and Fund Balance Summary: Governmental Funds

For the Fiscal Years Ended June 30, 2011 and 2010
(Modified Accrual Basis, Stated in Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2011	2010	2011	2010	2011	2010
Revenues:						
Taxes	9,074	8,617	3,197	3,864	12,271	12,481
Licenses and permits	345	338			345	338
Fines, forfeitures & penalties	59	60	236	136	295	196
From other Agencies	1,459	1,399	3,168	3,020	4,627	4,419
Use of money & property	941	1,061	323	504	1,264	1,565
Charges for current services	1,268	1,024	42		1,310	1,024
Other	1	5	496	297	497	302
Total revenues	13,147	12,504	7,462	7,821	20,609	20,325
Expenditures:						
Current	14,028	13,230	4,485	10,790	18,513	24,020
Debt Service		1	732	542	732	543
Capital Outlay	149	161	5,205	5,027	5,354	5,188
Total expenditures	14,177	13,392	10,422	16,359	24,599	29,751
Excess(Deficiency) of Revenues over Expenditures	(1,030)	(888)	(2,960)	(8,538)	(3,990)	(9,426)
Other Financing Sources(Uses):						
Proceeds from bonds issued			8,181		8,181	
Transfers In	1,030	1,671	3,018	443	4,048	2,114
Transfers Out			(2,390)	(1,102)	(2,390)	(1,102)
	1,030	1,671	8,809	(659)	9,839	1,012
Extraordinary Item: SERAF payment			(359)	(1,746)	(359)	(1,746)
Net Change in Fund Balances	0	783	5,490	(10,943)	5,490	(10,160)
Fund Balance July 1	5,691	4,908	16,430	27,373	22,121	32,281
Prior Period Adjustment	547				547	
Fund Balance July 1 restated	6,238	4,908	16,430	27,373	22,668	32,281
Fund Balances, June 30	6,238	5,691	21,920	16,430	28,158	22,121

Before the revenue from the additional 0.5% local sales tax, net taxes (including sales, property, occupancy, business licenses and franchise fees) decreased by 3.4%. The revenue from the additional 0.5% local sales tax increased by 7.0% from FY 2009-10 to FY 2010-11.

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

Other Governmental Funds Revenue from Other Agencies includes many government grants which vary dramatically from year to year. FY 2005-06 totaled \$1,138, increasing to \$2,516 for FY 2006-07, dropping to \$2,357 for FY 2007-08, to \$1,116 for FY 2008-09, then increasing to \$3,020 for FY 2009-10 and then again increasing this year to \$3,168. The largest components of this year's funding included \$722 for the 2002 STIP allocation, \$152 for Traffic Congestion Relief (Prop 42), \$431 from the HOME 4688 Grant for First Time Homebuyers and Owner Occupied Rehabilitation, and \$162 for the Oak Manor Trail project.

Current General Fund expenditures increased from \$13,230 to \$14,028. Other Governmental Funds saw a 55% decrease in expenditures, primarily in Current Expenditures for Community Development, as discussed in the Government Activities section. Total Governmental Fund expenditures decreased from \$29,751 in FY 2009-10, to \$24,599 in FY 2010-11, a 17% decrease.

The net change in fund balance in the General Fund for FY 2010-11 was \$0, as compared to a \$783 increase in FY 2009-10, reflecting the slightly improved revenues offset by increased expenditures. The net change in fund balances for the Other Governmental Funds was an increase of 150%, from \$(10,943) in FY 2009-10, to \$5,490 in FY 2010-11.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues are \$852 over budget, a positive variance of 6.9%. Total taxes were 4.5% over budget, with property taxes up 4.3% and sales taxes over budget by 4.6%. The regular sales tax revenue was over budget by \$156 (4.0%), and the local one-half percent sales tax was over by \$118 (5.8%).

Total General Fund expenditures finished the year over budget less than 1%, or \$13.

Before accounting for transfer activity there was a net positive variance of \$839. After transfers, the final positive variance in Fund Balance was \$1,432.

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

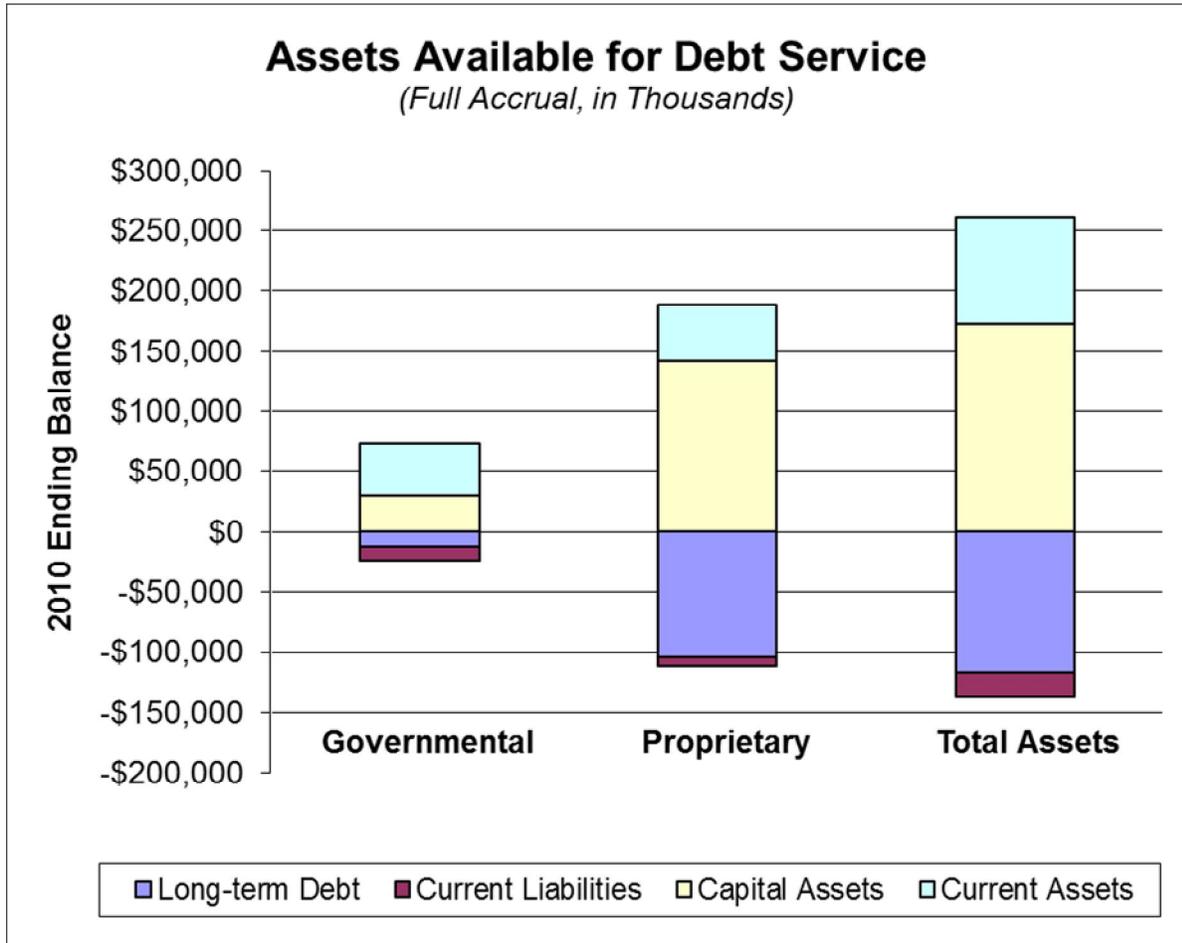
The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2011, the value of capital assets of the governmental activities, net of accumulated depreciation, totaled \$30,373, and the value of capital assets of the business-type activities, net of accumulated depreciation, totaled \$142,221. Depreciation on capital assets is recognized in the Government-Wide financial statements but not in the General Fund statements.

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

8. CURRENT LIABILITIES AND LONG-TERM DEBT

At year-end, current governmental liabilities are \$11,996 and business-type liabilities are \$7,411. The City had total governmental liabilities totaling \$24,398 and business-type liabilities of \$112,122. Included in these totals are \$12,402 of Redevelopment Agency long-term debt and \$104,711 of business-type debt, including the Lake Mendocino Hydro power plant bonds and water and sewer utility upgrades. The City has a total liabilities-to-net-assets ratio of 109%, up from 107% in FY 2009-10.



9. NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The City Budget for FY 2011-12 reduced expenditures by \$1,095 and revenues by \$167 from the projected actuals for FY 2010-11. After these changes, the adopted General Fund FY 2011-12 budget showed a net increase of \$25.

Estimated Combined Public Safety and General Fund revenues for FY 2011-12 are \$194 below the actual revenues for FY 2010-11. The expenditures are \$1,249 below FY 2010-11 actual expenditures. These amounts include the revenue and expenditures related to the Measure "S" Sales Tax which is budgeted at the same level in FY 2011-12. License and Permit fees are declining by \$84 due to onetime fees in FY 2010-11 that are not recurring in FY 2011-12. The budget adopted for the combined Public Safety and General Funds for FY 2011-12 has a balance of \$25. This is a reduction from the deficit of \$1,030 for FY 2010-11. This reduction in expenditures was accomplished by including certain personnel cost reductions which were subject to additional negotiations. The ultimate cost reductions were less than those contained in the budget and resulted in a deficit of \$300. The workweek for non-safety employees was reduced from 40 hours to 36 hours to realize savings in personnel costs.

The Measure "S" Sales Tax revenues for FY 2011-12 are projected to be \$2,155. 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 \$8,089 are recorded in Public Safety Fund #105. The General Fund (#100) provides the additional funding necessary for the expenditures in excess of the revenue received from Measure "S" and grant funds recorded directly in the Public Safety Fund.

GOVERNMENTAL FUNDS

Based on the analysis of our sales tax consultants, the budget contains a projected sales tax increase of \$13 over the FY 2010-11 projected actual sales tax amount. The FY 2011-12 budget reflects another difficult year that local governments throughout California and the United States are facing.

Changes implemented after the adoption of the FY 2010-11 budget included reductions in force and salary reductions for some bargaining units that remained throughout FY 2011-12. Management employees, Miscellaneous employees, City Department Heads, and the City Manager agreed to a 10% reduction in work hours, resulting in a 10% salary reduction for FY 2011-12. The citywide full-time positions were reduced from 171 at the beginning of FY 2010-11 to 169 for FY 2011-12.

The reduction in the workweek from 40 hours to 36 hours was a one year agreement. The agreements automatically return the workweek to 40 hours as of July 2012. Further reductions in operating expenses will be required to achieve a balanced budget for FY 2012-13 as the continued economic climate depresses 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 \$2,155 for the FY2011-12 budget year. Expenditures are broken into two categories: Police Department and Fire Department. Budgeted expenditures are \$8,089. 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 2011-12 is \$5,850 or \$830 more than the amount initially committed by the City Council.

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

ENTERPRISE FUNDS

Electric Utility: The Electric Utility expenditures are projected to increase slightly over the next year. One major project for the Electric Department is construction of the new Gobbi Street Substation which will be completed by the end of this fiscal year. A second major undertaking is the Pole Replacement Project. All electric poles have been tested and a priority list for replacement of defective poles has been established.

Water Operations: A five-year rate study was completed in 2010. The first scheduled increase became effective on August 1, 2010. Revenue for FY 2010-11 increased from \$2,674 to \$4,016. To help ensure an adequate supply of water for the City, Well #7 was completed in FY 2010-11 and Well #8 is scheduled to be put into production in FY 2011-12. The schedule of five annual rate increases is projected to meet revenue covenants.

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 revenue covenants. The multi-year wastewater treatment plant upgrade and capacity expansion project was completed in FY2010-11. The balance remaining in the project fund was transferred to the debt service fund held by the trustee, and fully funded the March 2011 debt payment as well as partially funding the September 2011 debt payment. A major project for Wastewater Operations for FY 2011-12 is the addition of a lining to existing sewer lines and man holes, as necessary, to prevent the inflow of water into the pipes.

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 gain, before depreciation, of \$18, compared to a net gain of \$11 in FY 2009-10 and a net loss of \$44 for FY 2008-09. Income continues to be less than the depreciation expense. Capital costs will continue to be subsidized, as necessary, by the General Fund, until the Conference Center is able to provide funding beyond operating expenses.

REDEVELOPMENT AGENCY

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

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

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

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

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

SUMMARY

While facing the prospect of reduced revenue, 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 2011-12 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 future budgets. Sponsorships, donations, and fees-for-service cover many of our youth sports and recreational programs, as well as community events. Successful grant funding has assisted the City in providing new playground equipment in four of the City's parks, as well as providing the majority of funding for the new skateboard park and upgrades to the swimming pool facility and Anton Stadium. City staff will continue to apply for grants in all categories, including bike lane enhancements and transportation funding, as they become available. The release of STIP funding from the State has also enhanced the City's ability to provide Public Works upgrades to street and infrastructure systems. As growth in the surrounding unincorporated areas continues to impact

City services, the need to prepare for possible service enhancements increases. Every decision that affects expansion of service should be weighed against funding options and economies of scale to ensure that it does not further erode City resources without equivalent funding for expenditures.

10. CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**CITY OF UKIAH
STATEMENT OF NET ASSETS
JUNE 30, 2011**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Funds</u>	<u>Total</u>
Cash and investments	\$ 22,220,463	\$ 36,794,193	\$ 59,014,656
Receivables (net)	6,962,901	4,112,777	11,075,678
Internal balances	574,571	(574,571)	-
Restricted Assets:			
Temporarily Restricted:			
Cash with fiscal agent	8,492,742	3,713,530	12,206,272
Prepaid expenses	6,812		6,812
Deposits	760	3,980	4,740
Inventory		864,182	864,182
Land primarily held for resale	4,197,996		4,197,996
Deferred charges	283,684	1,243,775	1,527,459
Capital assets (net of accumulated depreciation)	30,372,569	142,221,486	172,594,055
Total Assets	73,112,498	188,379,352	261,491,850
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	3,419,163	2,264,492	5,683,655
Accrued interest payable	161,034	219,670	380,704
Liabilities payable from restricted assets		1,128,643	1,128,643
Deferred revenues	8,150,978		8,150,978
Customer deposits		2,162	2,162
Noncurrent Liabilities:			
Due within one year	265,000	3,796,496	4,061,496
Due in more than one year	12,401,905	104,710,961	117,112,866
Total Liabilities	24,398,080	112,122,424	136,520,504
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	17,407,569	40,266,700	57,674,269
Restricted for:			
Public safety	639,904		639,904
Streets and highways	1,118,768		1,118,768
Community development	5,362,572		5,362,572
Low and moderate income housing	8,182,760		8,182,760
Debt service	1,972,251	2,172,384	4,144,635
Unrestricted	14,030,594	33,817,844	47,848,438
Total Net Assets	\$ 48,714,418	\$ 76,256,928	\$ 124,971,346

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

**CITY OF UKIAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue And Changes In Net Assets		
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 2,479,770	\$ 1,843,825			\$ (635,945)		\$ (635,945)
Public safety	9,595,075	1,092,577	\$ 309,240		(8,193,258)		(8,193,258)
Public works	3,097,652	587,676	413,897	\$ 858,192	(1,237,887)		(1,237,887)
Parks and recreation	2,466,386	751,854		1,523,179	(191,353)		(191,353)
Community development	3,598,630	210,910	597,444	49,012	(2,741,264)		(2,741,264)
Debt service:							
Interest	451,141				(451,141)		(451,141)
Total Governmental Activities	21,688,654	4,486,842	1,320,581	2,430,383	(13,450,848)	\$ -	(13,450,848)
Business-Type Activities:							
Electric	12,859,394	15,314,426				2,455,032	2,455,032
Water	3,289,935	4,039,757				749,822	749,822
Sewer	8,329,472	6,423,276				(1,906,196)	(1,906,196)
Disposal site	196,168	108,401				(87,767)	(87,767)
Street lighting	182,442	190,950				8,508	8,508
Airport	1,123,663	994,181				(129,482)	(129,482)
Parking	164,950	120,257	10,359			(34,334)	(34,334)
Golf course	947,058	894,787				(52,271)	(52,271)
Conference center	338,614	308,510				(30,104)	(30,104)
Total Business-Type Activities	27,431,696	28,394,545	10,359	-	-	973,208	973,208
Total	\$ 49,120,350	\$ 32,881,387	\$ 1,330,940	\$ 2,430,383	(13,450,848)	973,208	(12,477,640)
General Revenues:							
Taxes:							
Property					4,426,250		4,426,250
Sales and use					6,404,569		6,404,569
Property transfer					23,424		23,424
Transient occupancy					691,627		691,627
Business license					319,510		319,510
Franchise					548,783		548,783
From other agencies not restricted to specific programs					1,311,862		1,311,862
Use of money and property					173,255	719,334	892,589
Transfers					1,408,163	(1,408,163)	-
Total General Revenues, Special Items And Transfers					15,307,443	(688,829)	14,618,614
Extraordinary item: SERAF payment					(359,507)		(359,507)
Change In Net Assets					1,497,088	284,379	1,781,467
Net Assets - beginning					46,669,942	75,972,549	122,642,491
Prior period adjustment					547,388		547,388
Net Assets - beginning as restated					47,217,330	75,972,549	123,189,879
Net Assets - Ending					\$ 48,714,418	\$ 76,256,928	\$ 124,971,346

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

CITY OF UKIAH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 5,171,915	\$ 15,828,744	\$ 21,000,659
Cash with fiscal agent - restricted		8,492,742	8,492,742
Receivables:			
Accounts (net)	1,283,222	74,391	1,357,613
Property taxes	112,554	249,413	361,967
Interest	254,144		254,144
Grants	66,965	858,036	925,001
Loans	3,175	3,961,781	3,964,956
Prepaid expenses	5,312	1,500	6,812
Due from other funds	174,967		174,967
Advances due from other funds	877,506		877,506
Land primarily held for resale	4,197,996		4,197,996
Total Assets	<u>\$ 12,147,756</u>	<u>\$ 29,466,607</u>	<u>\$ 41,614,363</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 348,237	\$ 1,370,799	\$ 1,719,036
Accrued salaries and benefits	577,700	55,946	633,646
Accrued compensated absences	616,421	67,487	683,908
Contract retentions payable	20,425	80,355	100,780
Deferred revenues	4,341,982	4,606,489	8,948,471
Due to other funds	5,191	294,803	299,994
Advances due to other funds		1,070,302	1,070,302
Total Liabilities	<u>5,909,956</u>	<u>7,546,181</u>	<u>13,456,137</u>
Fund Equity:			
Fund Balance:			
Non-spendable	877,506		877,506
Restricted		13,404,870	13,404,870
Committed	146,147	756,047	902,194
Assigned	4,686,766	7,759,509	12,446,275
Unassigned	527,381		527,381
Total Fund Balances	<u>6,237,800</u>	<u>21,920,426</u>	<u>28,158,226</u>
Total Liabilities And Fund Balances	<u>\$ 12,147,756</u>	<u>\$ 29,466,607</u>	<u>\$ 41,614,363</u>

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

**CITY OF UKIAH
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
JUNE 30, 2011**

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

Total Fund Balances	\$ 28,158,226
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets	56,918,353
Less: Accumulated depreciation	(26,956,002)
Liabilities were reported for certain revenues that were not available to pay current period expenditures, and , therefore deferred in the funds.	
Deferred revenues - unearned	797,493
Internal service funds are used by management to charge the costs of garage, stores, billing, workers' compensation, public safety dispatch and liability insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	2,340,603
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Ukiah Redevelopment Agency capital lease payable	(12,965,000)
Deferred issue costs (will be amortized)	283,684
Bond discount (will be amortized)	298,095
Accrued interest on long-term debt	(161,034)
Net Assets Of Governmental Activities	\$ 48,714,418

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, 2011

<u>REVENUES</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes:			
Property	\$ 1,229,796	\$ 3,196,454	\$ 4,426,250
Sales and use	6,260,583		6,260,583
Property transfer	23,424		23,424
Transient occupancy	691,627		691,627
Business license	319,510		319,510
Franchise	548,783		548,783
Licenses and permits	344,593		344,593
Fines, forfeitures, and penalties	59,166	236,447	295,613
From other agencies	1,459,198	3,167,592	4,626,790
Use of money and property	941,344	323,077	1,264,421
Charges for current services	1,267,519	42,308	1,309,827
Other	1,524	496,137	497,661
Total Revenues	<u>13,147,067</u>	<u>7,462,015</u>	<u>20,609,082</u>
<u>EXPENDITURES</u>			
Current:			
General government	1,690,245	10,899	1,701,144
Public safety	8,500,137	212,018	8,712,155
Street and roads	1,467,200	787,854	2,255,054
Parks and recreation	2,280,871	31,963	2,312,834
Community development	89,070	3,441,628	3,530,698
Debt service:			
Principal		250,000	250,000
Interest	355	289,160	289,515
Issue costs		192,808	192,808
Capital outlay	149,454	5,205,311	5,354,765
Total Expenditures	<u>14,177,332</u>	<u>10,421,641</u>	<u>24,598,973</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,030,265)</u>	<u>(2,959,626)</u>	<u>(3,989,891)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from bonds issued		8,430,000	8,430,000
Discount on bonds issued		(249,138)	(249,138)
Transfers in	1,030,115	3,017,846	4,047,961
Transfers out		(2,389,798)	(2,389,798)
Total Other Financing Sources (Uses)	<u>1,030,115</u>	<u>8,808,910</u>	<u>9,839,025</u>
Extraordinary item: SERAF payment		(359,507)	(359,507)
Net Change In Fund Balances	<u>(150)</u>	<u>5,489,777</u>	<u>5,489,627</u>
Fund Balances, July 1,	5,690,562	16,430,649	22,121,211
Prior period adjustments	547,388		547,388
Fund Balance, July 1, as restated	<u>6,237,950</u>	<u>16,430,649</u>	<u>22,668,599</u>
Fund Balances, June 30,	<u>\$ 6,237,800</u>	<u>\$ 21,920,426</u>	<u>\$ 28,158,226</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, 2011**

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

Net change in fund balances - total governmental funds	\$	5,489,627
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Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay		5,354,765
Capital asset dispositions		(333,760)
Depreciation		(1,132,797)

The issuance of long-term debt provided current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Debt Issued:

Ukiah Redevelopment Agency bonds		(8,430,000)
Issue costs (will be amortized)		192,808
Bond discounts (will be amortized)		249,138

Principal Repayments:

Ukiah Redevelopment Agency loan payments		250,000
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Revenues not available to pay current expenditures are deferred in the funds:

Deferred revenues - unearned		296,494
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as an expenditures in governmental funds

Accrued interest on long-term debt		(142,583)
Amortize bond issue costs		(10,378)
Amortize bond discounts		(8,665)

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

		(277,561)
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Change In Net Assets Of Governmental Activities

	\$	<u>1,497,088</u>
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CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

<u>ASSETS</u>	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Current Assets:							
Cash	\$ 12,054,843	\$ 541,259	\$ 14,693,324	\$ 8,778,819	\$ 725,948	\$ 36,794,193	\$ 1,219,804
Receivables:							
Accounts (net)	1,326,198	211,830	44,475	10,853	122,238	1,715,594	99,220
Unbilled	1,522,748	462,704	411,731			2,397,183	
Due from other funds	69,395					69,395	319,663
Deposits		3,180			800	3,980	760
Inventory	792,988	71,194				864,182	
Total Current Assets	15,766,172	1,290,167	15,149,530	8,789,672	848,986	41,844,527	1,639,447
Noncurrent Assets:							
Restricted:							
Cash with fiscal agent	2,072,026		1,641,504			3,713,530	
Other Noncurrent Assets:							
Advances due from other funds	816,292					816,292	572,731
Unamortized capital debt issue costs	101,005	386,319	756,451			1,243,775	
Capital Assets:							
Land	1,473,798		670,431	699,654	1,829,928	4,673,811	
Land improvements	35,751	129,206	120,290		1,677,335	1,962,582	
Infrastructure	9,275,694	7,209,823	81,830,254		1,233,407	99,549,178	
Buildings and improvements	25,437,975	18,130,288	10,179,727		2,943,142	56,691,132	327,113
Licensed vehicles	1,307,448	373,625	510,766	101,296	191,707	2,484,842	26,574
Machinery and equipment	2,665,018	1,992,118	1,493,153	404,039	395,826	6,950,154	413,227
Less: Accumulated depreciation	(20,661,383)	(7,317,827)	(9,332,408)	(318,292)	(3,771,875)	(41,401,785)	(356,696)
Construction in progress	7,284,797	1,744,184	1,398,256		884,335	11,311,572	
Total Noncurrent Assets	29,808,421	22,647,736	89,268,424	886,697	5,383,805	147,995,083	982,949
Total Assets	45,574,593	23,937,903	104,417,954	9,676,369	6,232,791	189,839,610	2,622,396

continued

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

**CITY OF UKIAH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

LIABILITIES	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Current Liabilities:							
Accounts payable	846,519	53,343	78,186	7,876	211,292	1,197,216	82,745
Accrued salaries and benefits	122,671	49,642	76,950	347	41,399	291,009	98,889
Accrued compensated absences	112,223	49,181	92,565	1,364	34,967	290,300	100,159
Contract retentions payable	482,967	3,000				485,967	
Accrued interest payable		205,089	12,191		2,390	219,670	
Customer deposits					2,162	2,162	
Due to other funds		186,250			77,781	264,031	
Current portion of long-term debt		444,021	2,027,475			2,471,496	
Total Current Liabilities	1,564,380	990,526	2,287,367	9,587	369,991	5,221,851	281,793
Current Liabilities Payable From Restricted Assets:							
Revenue bonds payable - current portion	1,325,000					1,325,000	
Accrued interest payable	59,010		1,069,633			1,128,643	
Total Current Liabilities Payable From Restricted Assets	1,384,010	-	1,069,633	-	-	2,453,643	-
Noncurrent Liabilities:							
Advances from other funds		558,750			637,477	1,196,227	
Installment obligation (net of unamortized discount)		12,953,875	70,255,861			83,209,736	
State loans payable		1,517,161	1,583,153			3,100,314	
Revenue bonds payable (net of unamortized discount)	9,805,689					9,805,689	
Estimated landfill closure costs				8,595,222		8,595,222	
Total Noncurrent Liabilities	9,805,689	15,029,786	71,839,014	8,595,222	637,477	105,907,188	-
Total Liabilities	12,754,079	16,020,312	75,196,014	8,604,809	1,007,468	113,582,682	281,793
NET ASSETS							
Invested in capital assets, net of related debt	15,489,098	7,445,236	12,208,507	912,192	4,211,667	40,266,700	410,218
Restricted for debt service	2,013,016			159,368		2,172,384	
Unrestricted	15,318,400	472,355	17,013,433		1,013,656	33,817,844	1,930,385
Total Net Assets	\$ 32,820,514	\$ 7,917,591	\$ 29,221,940	\$ 1,071,560	\$ 5,225,323	\$ 76,256,928	\$ 2,340,603

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

CITY OF UKIAH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES</u>							
Charges for current services	\$ 15,313,183	\$ 4,036,531	\$ 6,068,586	\$ 101,400	\$ 2,301,510	\$ 27,821,210	\$ 2,722,348
Licenses and permits					72,349	72,349	
Fines, forfeitures and penalties					47,908	47,908	
Other revenues	1,243	3,226	354,690	7,001	86,918	453,078	927,291
Total Operating Revenues	<u>15,314,426</u>	<u>4,039,757</u>	<u>6,423,276</u>	<u>108,401</u>	<u>2,508,685</u>	<u>28,394,545</u>	<u>3,649,639</u>
<u>OPERATING EXPENSES</u>							
Purchased power	6,517,362					6,517,362	
Operations	2,749,816	633,337	1,428,457	55,955	1,450,932	6,318,497	2,150,360
Maintenance		430,437	609,923	112,432	95,620	1,248,412	38,300
Fuels and lubricants					604,163	604,163	8,833
Utilities		298,314	327,074	15,033	301,706	942,127	16,011
General and administration	1,812,577	672,785	652,495		151,228	3,289,085	209,653
Insurance premiums and deductibles							1,239,326
Depreciation	953,865	589,461	1,883,396	12,748	135,065	3,574,535	38,825
Total Operating Expenses	<u>12,033,620</u>	<u>2,624,334</u>	<u>4,901,345</u>	<u>196,168</u>	<u>2,738,714</u>	<u>22,494,181</u>	<u>3,701,308</u>
Operating Income	<u>3,280,806</u>	<u>1,415,423</u>	<u>1,521,931</u>	<u>(87,767)</u>	<u>(230,029)</u>	<u>5,900,364</u>	<u>(51,669)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>							
Taxes					10,359	10,359	
From(To) other agencies			(72,020)			(72,020)	
Interest income	306,379	2,359	244,402	151,374	14,820	719,334	24,108
Interest expense and fiscal charges	(825,774)	(665,601)	(3,356,107)		(18,013)	(4,865,495)	
Total Nonoperating Revenues (Expenses)	<u>(519,395)</u>	<u>(663,242)</u>	<u>(3,183,725)</u>	<u>151,374</u>	<u>7,166</u>	<u>(4,207,822)</u>	<u>24,108</u>
Income Before Special Items And Transfers	2,761,411	752,181	(1,661,794)	63,607	(222,863)	1,692,542	(27,561)
Transfers out	(1,253,667)	(154,496)				(1,408,163)	(250,000)
Change In Net Assets	<u>1,507,744</u>	<u>597,685</u>	<u>(1,661,794)</u>	<u>63,607</u>	<u>(222,863)</u>	<u>284,379</u>	<u>(277,561)</u>
Total Net Assets - beginning	31,312,770	7,319,906	30,883,734	1,007,953	5,448,186	75,972,549	2,618,164
Total Net Assets - ending	<u>\$ 32,820,514</u>	<u>\$ 7,917,591</u>	<u>\$ 29,221,940</u>	<u>\$ 1,071,560</u>	<u>\$ 5,225,323</u>	<u>\$ 76,256,928</u>	<u>\$ 2,340,603</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, 2011**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities:							
Receipts from customers and users	\$ 14,700,527	\$ 3,775,137	\$ 6,414,573	\$ 97,548	\$ 2,474,013	\$ 27,461,798	\$ 138,365
Receipts from interfund services provided							3,515,533
Payments to suppliers	(7,833,070)	(1,218,834)	(1,724,372)	(175,244)	(1,901,928)	(12,853,448)	(2,369,847)
Payments to employees	(1,693,062)	(645,676)	(949,237)	(5,490)	(511,922)	(3,805,387)	(1,251,000)
Payments for interfund services provided	(476,815)	(279,656)	(311,214)	(187)	(139,530)	(1,207,402)	
Net Cash Provided (Used) By Operating Activities	4,697,580	1,630,971	3,429,750	(83,373)	(79,367)	9,595,561	33,051
Cash Flows From Noncapital Financing Activities:							
Property taxes and subventions					9,634	9,634	
From(To) other agencies		(154,496)	(12,623)			(167,119)	
Advances from(to) other funds	65,467					65,467	35,980
Transfers in(out)	(1,253,667)					(1,253,667)	
Net Cash Provided (Used) By Noncapital Financing Activities	(1,188,200)	(154,496)	(12,623)	-	9,634	(1,345,685)	(214,020)
Cash Flows From Capital and Related Financing Activities:							
Acquisition and construction of capital assets	(5,804,452)	(628,704)	(3,172,469)			(9,605,625)	
Capital grants					18,223	18,223	
Principal paid on capital debt	(1,240,000)	(429,667)	(1,956,771)			(3,626,438)	
Interest paid on capital debt	(785,626)	(661,333)	(3,351,269)		(19,919)	(4,818,147)	
Trustee fees	(5,410)					(5,410)	
From other agencies			(59,397)			(59,397)	
Advances from(to) other funds					(78,875)	(78,875)	(105,000)
Net Cash Provided (Used) By Capital And Related Financing Activities	(7,835,488)	(1,719,704)	(8,539,906)	-	(80,571)	(18,175,669)	(105,000)
Cash Flows From Investing Activities:							
Interest on investments	306,379	2,359	244,402	151,374	14,819	719,333	24,108
Net Cash Provided (Used) By Investing Activities	306,379	2,359	244,402	151,374	14,819	719,333	24,108
Net Increase (Decrease) In Cash	(4,019,729)	(240,870)	(4,878,377)	68,001	(135,485)	(9,206,460)	(261,861)
Cash Balance - beginning	18,146,598	782,129	21,213,205	8,710,818	861,433	49,714,183	1,481,665
Cash Balance - ending	\$ 14,126,869	\$ 541,259	\$ 16,334,828	\$ 8,778,819	\$ 725,948	\$ 40,507,723	\$ 1,219,804

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, 2011**

	Electric	Water	Sewer	Disposal Site	Other Proprietary Funds	Totals	Governmental Activities - Internal Service Funds
Reconciliation of Cash Balance:							
Cash	\$ 12,054,843	\$ 541,259	\$ 14,693,324	\$ 8,778,819	\$ 725,948	\$ 36,794,193	\$ 1,219,804
Restricted cash with fiscal agent	2,072,026		1,641,504			3,713,530	
Cash Balance - ending	<u>\$ 14,126,869</u>	<u>\$ 541,259</u>	<u>\$ 16,334,828</u>	<u>\$ 8,778,819</u>	<u>\$ 725,948</u>	<u>\$ 40,507,723</u>	<u>\$ 1,219,804</u>
Reconciliation of Operating Income To Net Cash							
Provided (Used) By Operating Activities:							
Operating income (loss)	\$ 3,280,806	\$ 1,415,423	\$ 1,521,931	\$ (87,767)	\$ (230,029)	\$ 5,900,364	\$ (51,669)
Adjustments to Reconcile Operating Income To Net Cash							
Provided (Used) By Operating Activities:							
Depreciation	953,865	589,461	1,883,396	12,748	135,065	3,574,535	38,825
Decrease (Increase) in receivables	(613,899)	(264,620)	(8,703)	(10,853)	(34,672)	(932,747)	909
Decrease (Increase) in inventory	10,443	(347)				10,096	
Decrease (Increase) in deposits		770				770	
Decrease (Increase) in payables	1,066,365	(114,989)	33,126	2,499	50,269	1,037,270	44,986
Amortization		5,273				5,273	
Net Cash Provided (Used) By Operating Activities	<u>\$ 4,697,580</u>	<u>\$ 1,630,971</u>	<u>\$ 3,429,750</u>	<u>\$ (83,373)</u>	<u>\$ (79,367)</u>	<u>\$ 9,595,561</u>	<u>\$ 33,051</u>
Non-Cash Transactions:							
Amortize capital debt issue costs	\$ 14,429	\$ 18,835	\$ 30,667			\$ 63,931	
Amortize capital debt discount (premium)	28,473	(4,084)	(2,265)			22,124	
Accrue additional landfill closure/postclosure costs				\$ 1,008		1,008	

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

**CITY OF UKIAH
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Assets:		
Cash and investments	\$ 1,597,686	\$ 6,323,503
Receivables:		
Accounts (net)	35,848	184,051
Unbilled		183,071
 Total Assets	 <u>1,633,534</u>	 <u>6,690,625</u>
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable	\$7,931	82,269
Accrued salaries and benefits	166,416	
Utility and other deposits	1,119,945	
Due to Ukiah Valley Sanitation District		5,980,336
Due to Solid Wastes Systems		542,015
Due to Russian River JPA		86,005
 Total Liabilities	 <u>1,294,292</u>	 <u>\$ 6,690,625</u>
<u>NET ASSETS</u>		
Held in trust for other purposes	<u>\$ 339,242</u>	

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

**CITY OF UKIAH
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Private Purpose Trust</u>
<u>Additions</u>	
Taxes	\$ 16,924
Use of money and property	15
Total Additions	<u>16,939</u>
<u>Deductions</u>	
Current:	
Community development	23,533
Retirement benefits	271,745
Total Deductions	<u>295,278</u>
Change in net assets	(278,339)
Net Assets - beginning	617,581
Net Assets - ending	<u><u>\$ 339,242</u></u>

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

1) Summary of Significant Accounting Policies

A) Reporting Entity

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

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

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

B) Government-Wide And Fund Financial Statements

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

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

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

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

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

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

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the City's electric, water, sewer, golf and street lighting funds and the City's internal service funds are charges to customers for sales and services. Principal operating revenues of the City's airport, disposal and conference center funds includes charges to customers for sales and services and rental fees. The parking district fund's principal operating revenues include the sale of parking permits to customers and parking fines. The City also recognizes as operating revenue tap fees intended to recover the cost of connecting new 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.

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

D) Change in Financial Statement Presentation and Adoption of New Pronouncements

In prior years the activities of the Redevelopment Capital Improvement Fund were significant enough to be classified and reported as a major fund. The fund has been classified and included as a non-major fund in the accompanying financial statements.

For the year ended June 30, 2011, the City has adopted the reporting provisions contained in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. No restatement of prior year amounts was required due to the adoption of this Statement.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

GASB Statement No. 54 establishes fund balance classifications primarily based on the extent to which the City is bound to observe the constraints imposed upon the use of resources reported in governmental funds. These fund balance classifications are as follows:

- Non-spendable – amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted – amounts restricted to a specific purpose by an external party such as creditors, grantors, contributors, or laws or regulations of other governments; or restrictions are imposed by law through constitutional provisions or enabling legislation.
- Committed – amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's Board of Commissioners. Committed amounts cannot be used for any other purpose without removal or changes to the specified use by taking the same type of action.
- Assigned – amounts that are constrained by the Agency's intent to be used for specific purposes as expressed by the Board of Commissioners or management.
- Unassigned – amounts available for any purpose.

E) Assets, Liabilities, And Net Assets Or Equity

1) Cash And Investments

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

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2) Receivables And Payables

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

An estimated receivable of \$2,397,183 has been reported within the City's enterprise funds for services provided but not yet billed as of June 30, 2011. 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, 2011.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables totaled \$777,963, including \$111,053 for emergency response billings and booking fees, and were determined based on an analysis of historical trends.

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

3) Inventories And Prepaid Items

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

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

4) Restricted Assets

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

5) Capital Assets

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

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

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

Interest is capitalized on construction of major assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. For the year ended June 30, 2011, 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) Compensated Absences

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

7) Long-Term Obligations

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

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

8) Restricted Net Assets

The government-wide statement of net assets reports \$19,448,639 of restricted net assets, of which \$7,242,367 is restricted by enabling legislation.

2 Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted for all governmental funds except the certain minor Special Revenue Funds including: Museum Grant, Asset Seizure (Drug/Alcohol), H&S Education, Federal Assets Seizure, Local Law Enforcement, Federal Emergency Shelter Grant, CDBG, EDBG 94-333 Revolving Loan, Community Development, SB 325 Reimbursement, Trans-Traffic Congestion, and FEMA Grant. Budgets are adopted on a basis consistent with generally accepted accounting principals. Annually, each City department submits a request for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Before June 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations totaling \$6,403,992 were authorized.

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

B) Excess Of Expenditures Over Appropriations

For the year ended June 30, 2011, the following fund had expenditures exceeding appropriations:

Expenditures Over Appropriations:	
General Fund	\$ (12,975)
Asset Seizure Fund	(19,009)
Federal Asset Seizure Fund	(20,100)

C) Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2011. These deficits were primarily caused by expenditures in excess of grant awards. Management is monitoring each fund's activities to ensure improved financial position. The deficits do not represent a significant financial burden.

Deficit Fund Equities:	
Park Development Fund	\$ (181,018)
Bridge Fund	(50,607)
2106 Gas Tax Fund	(12,633)
2105 Gas Tax Fund	(27,895)
STIP Augmentation Fund	(49,260)
Ukiah Redevelopment Agency Fund	(35,612)
FEMA Fund	(24,607)

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

3) Detailed Notes On All Funds

A) Cash And Investments

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

Statement of Net Assets:	
Cash and investments	\$ 59,014,656
Restricted cash with fiscal agent	12,206,272
Statement of Fiduciary Net Assets:	
Cash and investments	7,921,189
Total Cash and Investments	<u>\$ 79,142,117</u>

Cash and investments consist of the following:

Cash on hand	\$ 2,950
Deposits with financial institutions	5,670,203
Investments	73,468,964
Total Cash and Investments	<u>\$ 79,142,117</u>

Authorized Investments – City Investment Policy

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

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

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

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

Authorized Investments – Debt Trustee Agreements

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Interest Rate Risk

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

As of June 30, 2011, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds and Notes	\$ 16,684,545	2.24
U.S Treasury Bonds and Notes	13,592,540	1.24
U.S. Government Agency Bonds and Notes	27,516,117	1.70
Municipal and State Bonds	1,304,407	0.13
State Investment Pool (LAIF)	1,821,178	0.51
Money Market Funds	7,468,159	-
Held By Bond Trustee:		
Money Market Funds	5,082,018	-
Total Fair Value	\$ 73,468,964	
Portfolio Weighted Average Maturity		1.12

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2011, 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	\$ 16,684,545		\$ 4,752,226	\$ 4,395,948	\$ 7,536,372	
U.S Treasury Bonds and Notes	13,592,540	\$ 13,592,540				
U.S. Government Agency Bonds and Notes	27,516,117		27,516,117			
Municipal and State Bonds	1,304,407			1,304,407		
State Investment Pool	1,821,178					\$ 1,821,180
Money Market Funds	7,468,159		7,468,159			
Held By Bond Trustee:						
Money Market Funds	5,082,018					
Total Fair Value	\$ 73,468,964	\$ 13,592,540	\$ 39,736,502	\$ 5,700,355	\$ 7,536,372	\$ 1,821,180

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, 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
U.S. Federal Agency Security	FNMA	\$ 4,523,270
U.S. Federal Agency Security	FNMA	4,404,960
Dreyfus Tax Exempt Cash Management Money Fund	Dreyfus	4,392,988

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that in the event of bank failure, the City's deposits may not be returned to the City or the City will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by the a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110% of the total deposits by public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. It is the policy of the City not to waive these requirements.

At year-end, the City's deposits with financial institutions totaled \$5,918,739, of which \$1,138,906 was covered by federal depository insurance. The \$4,779,833 uninsured amount was exposed to custodial credit risk, but was collateralized by securities, as described above.

As of June 30, 2011, 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	\$ 16,684,545
U.S Treasury Bonds and Notes	13,592,540
U.S. Government Agency Bonds and Notes	27,516,117
Municipal and State Bonds	1,305,407

Investment in State Investment Pool

The Local Agency Investment Pool (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The City may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to the dollars held.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

B) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

Government Activities:	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Nondepreciable Capital Assets:				
Land	\$ 3,694,032	\$ 372,155		\$ 4,066,187
Construction in progress	2,227,317	3,170,599	\$ 333,760	5,064,156
Total Nondepreciable Capital Assets	<u>5,921,349</u>	<u>3,542,754</u>	<u>333,760</u>	<u>9,130,343</u>
Depreciable Capital Assets:				
Land improvements	958,109	902,523		1,860,632
Infrastructure	32,320,544	698,888		33,019,432
Buildings	6,333,513			6,333,513
Licensed vehicles	4,178,048	97,487		4,275,535
Machinery and equipment	2,984,752	113,112	32,052	3,065,812
Total Depreciable Capital Assets	<u>46,774,966</u>	<u>1,812,010</u>	<u>32,052</u>	<u>48,554,924</u>
Less: Accumulated Depreciation:				
Land improvements	(781,155)	(21,528)		(802,683)
Infrastructure	(18,902,712)	(504,648)		(19,407,360)
Buildings	(2,365,451)	(143,106)		(2,508,557)
Licensed vehicles	(2,331,871)	(297,280)		(2,629,151)
Machinery and equipment	(1,791,940)	(205,059)	(32,052)	(1,964,947)
Total Accumulated Depreciation	<u>(26,173,129)</u>	<u>(1,171,621)</u>	<u>(32,052)</u>	<u>(27,312,698)</u>
Depreciable Capital Assets, net	<u>20,601,837</u>	<u>640,389</u>	<u>-</u>	<u>21,242,226</u>
Governmental Activities Capital Assets, net	<u>\$ 26,523,186</u>	<u>\$ 4,183,143</u>	<u>\$ 333,760</u>	<u>\$ 30,372,569</u>

Business-Type Activities:	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Nondepreciable Capital Assets:				
Land	\$ 4,673,811			\$ 4,673,811
Construction in progress	4,649,624	\$ 6,981,130	\$ 319,182	11,311,572
Total Nondepreciable Capital Assets	<u>9,323,435</u>	<u>6,981,130</u>	<u>319,182</u>	<u>15,985,383</u>
Depreciable Capital Assets:				
Land improvements	1,962,582			1,962,582
Infrastructure	98,884,322	664,856		99,549,178
Buildings and improvements	56,681,933	9,199		56,691,132
Licensed vehicles	2,549,570		64,728	2,484,842
Machinery and equipment	6,593,198	411,492	54,536	6,950,154
Total Depreciable Capital Assets	<u>166,671,605</u>	<u>1,085,547</u>	<u>119,264</u>	<u>167,637,888</u>
Less: Accumulated Depreciation:				
Land improvements	(1,076,000)	(56,428)		(1,132,428)
Infrastructure	(11,994,204)	(2,001,748)		(13,995,952)
Buildings and improvements	(19,724,135)	(1,117,376)		(20,841,511)
Licensed vehicles	(1,911,997)	(149,118)	(64,728)	(1,996,387)
Machinery and equipment	(3,240,178)	(249,865)	(54,536)	(3,435,507)
Total Accumulated Depreciation	<u>(37,946,514)</u>	<u>(3,574,535)</u>	<u>(119,264)</u>	<u>(41,401,785)</u>
Depreciable Capital Assets, net	<u>128,725,091</u>	<u>(2,488,988)</u>	<u>-</u>	<u>126,236,103</u>
Business-Type Activities Capital Assets, net	<u>\$ 138,048,526</u>	<u>\$ 4,492,142</u>	<u>\$ 319,182</u>	<u>\$ 142,221,486</u>

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Governmental Activities:	
General government	\$ 145,737
Public safety	348,985
Streets	597,899
Parks	74,041
Community development	4,959
Total Depreciation Expense - Governmental Activities	<u>\$ 1,171,621</u>
Business-Type Activities:	
Electric	\$ 953,865
Water	589,461
Sewer	1,883,396
Disposal site	12,748
Airport	66,053
Parking	5,325
Golf course	16,148
Conference center	47,539
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,574,535</u>

Construction And Other Commitments

The City completed several major construction projects as of June 30, 2011. The projects include expansion and upgrade of the sewage treatment plant and the construction of a bridge. The City is also in the process of developing new citywide financial software. At year-end the City's incomplete major commitments with contractors were as follows:

	Expended To-Date	Remaining Commitment
Swimming Pool	\$ 612,345	\$ 185,155
Gobbi Street Substation	5,817,916	3,482,084
Utility Pole Replacement	978,763	659,100
Gobbi Water Well	707,694	70,000

C) Interfund Receivables, Payables And Transfers

The composition of Interfund balances and transfers within the City's fund financial statements as of June 30, 2011 is as follows:

<u>Due To(From) Other Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 174,967	\$ 5,191
Electric Fund	69,395	
Water Fund		186,250
Nonmajor governmental funds		294,803
Nonmajor business-type funds		77,781
Internal service fund	319,663	
Total Due To(From) Other Funds	<u>\$ 564,025</u>	<u>\$ 564,025</u>

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
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Advances Due To(From) Other Funds	Due From	Due To
General Fund	\$ 877,506	
Electric Fund	816,292	
Water Fund		\$ 558,750
Nonmajor governmental funds		1,070,302
Nonmajor business-type funds		637,477
Internal service fund	572,731	
Total Advances Due To(From) Other Funds	<u>\$ 2,266,529</u>	<u>\$ 2,266,529</u>

The General and Electric funds have made long-term advances to the Ukiah Redevelopment Agency (RDA), a nonmajor governmental fund. The advances are payable upon demand, however, the RDA is repaying the advances over the next eleven (11) years.

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.

The current portion of the above advances total \$353,278 has been included in due to(from) other funds.

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$ 1,030,115	
Electric Fund		\$ 1,253,667
Water Fund		154,496
Nonmajor governmental funds	3,017,846	2,389,798
Internal service fund		250,000
Total Transfers In(Out)	<u>\$ 4,047,961</u>	<u>\$ 4,047,961</u>

The Electric Fund transferred \$1,030,115 to the General Fund representing payments in-lieu of taxes. An additional \$223,552 was transferred the Park Development Fund (a non-major special revenue fund) to fund a portion of various park improvement projects.

The Park Development Fund also received \$157,625 from the Special Projects Fund (a non-major capital projects fund) to finance park-related improvements.

The Water Fund transferred \$154,496 to the Special Revenue Fund (a non-major special revenue fund) to provide financial resources for various capital projects.

The Ukiah Redevelopment Agency transferred \$95,000, the Ukiah Redevelopment Debt Service Fund transferred \$790,000, and the Ukiah Redevelopment Capital Improvement Fund transferred \$1,147,866 to the City RDA Capital Projects Fund as part of an agreement between the two entities whereby the City would be responsible to design and construct public improvements within the redevelopment project area.

The Ukiah Redevelopment Debt Service Fund transferred \$150,000 to the Ukiah Redevelopment Capital Improvement Fund to construct public improvements within the redevelopment project area.

Transfers of \$27,212 and \$22,095 were made from the Special Projects Fund to the Fixed Asset Fund and STIP Augmentation Fund, respectively, for street-related projects.

The Purchasing Fund and Utility Billing Funds (internal service funds) transferred \$50,000 and \$200,000, respectively, to the Fixed Asset Fund for capital projects related improvements to the City's information technology system.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

D) Long-Term Debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Government Activities:					
Tax Allocation Bonds - Series 2007	\$ 4,785,000		\$ 250,000	\$ 4,535,000	\$ 265,000
Tax Allocation Bonds - Series 2011A		\$ 5,180,000		5,180,000	-
Tax Allocation Bonds - Series 2011B		3,250,000		3,250,000	-
Deferred amounts:					
Issuance discounts	(57,622)	(249,138)	(8,665)	(298,095)	
Governmental Activities Long-Term Liabilities	<u>\$ 4,727,378</u>	<u>\$ 8,180,862</u>	<u>\$ 241,335</u>	<u>\$ 12,666,905</u>	<u>\$ 265,000</u>
	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Business-Type Activities:					
Electric revenue bonds payable	\$ 12,570,000		\$ 1,240,000	\$ 11,330,000	\$ 1,325,000
Deferred amounts:					
Issuance discounts	(227,784)		(28,473)	(199,311)	
Net revenue bonds payable	<u>12,342,216</u>	<u>\$ -</u>	<u>1,211,527</u>	<u>11,130,689</u>	<u>1,325,000</u>
Installment obligations payable:					
Water treatment plant	13,485,000		310,000	13,175,000	320,000
Wastewater treatment plant	73,460,000		1,600,000	71,860,000	1,660,000
Deferred amounts:					
Issuance premiums	161,085		6,349	154,736	
Net installment obligations payable	<u>87,106,085</u>	<u>-</u>	<u>1,916,349</u>	<u>85,189,736</u>	<u>1,980,000</u>
State loans:					
Water Resources - Water Treatment	1,760,849		119,667	1,641,182	124,021
Water Resources - Sewer Treatment	2,307,400		356,772	1,950,628	367,475
Total State loans	<u>4,068,249</u>	<u>-</u>	<u>476,439</u>	<u>3,591,810</u>	<u>491,496</u>
Landfill closure and post-closure	<u>8,564,214</u>	<u>31,008</u>	<u>-</u>	<u>8,595,222</u>	<u>-</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 112,080,764</u>	<u>\$ 31,008</u>	<u>\$ 3,604,315</u>	<u>\$ 108,507,457</u>	<u>\$ 3,796,496</u>

Ukiah Redevelopment Agency Tax Allocation Refunding Bonds, Series 2007. On April 18, 2007, the Ukiah Redevelopment Agency (RDA) issued \$5,595,000 in tax allocation bonds to refinance a loan agreement between the RDA and the Redwood Empire Financing Authority. The bond series is comprised of \$4,310,000 in serial bonds maturing annually on December 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.

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

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

Revenue Bonds. The City has issued bonds where the City pledges revenue derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, excluding an unamortized discount of \$199,644, at June 30, 2011 were as follows:

Purpose	Interest Rates	Amount
Electric Revenue Refunding Series 1992	3.20% - 5.90%	\$ 11,330,000

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

Water Treatment Plant – Dated September 1, 2005 the original amount of the obligation was \$14,355,000 and is secured with a pledge of net revenues from the City's water system. The obligation principal is payable in annual installments beginning September 1, 2007 ranging from \$280,000 to \$845,000 through September 1, 2035. Interest payments commenced March 1, 2006 and are payable semiannually on September 1st and March 1st. At June 30, 2011 the installment obligation liability outstanding excluding the unamortized premium of \$98,875 was as follows:

Purpose	Interest Rates	Amount
Water Treatment Plant Upgrade	4.00% - 4.50%	\$ 13,175,000

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, 2011 the installment obligation liability outstanding excluding the unamortized premium of \$55,861 was as follows:

Purpose	Interest Rates	Amount
Wastewater Treatment Plant Upgrade & Expansion	4.00% - 4.75%	\$ 71,860,000

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Water Treatment Plant – The maximum loan amount is \$3,599,009 and is payable over 30 years. At June 30, 2011, the balance of the loan was \$1,641,182. Principal and interest are payable semi-annually on April 1st, and October 1st, with the interest rate being 3.6024%. Loan payments will be made exclusively from revenues received from assessments and user charges of the treatment plant.

Wastewater Treatment Plant – The maximum loan amount is \$6,592,944, payable over 20 years. At June 30, 2011, the balance of the loan was \$1,950,628. Principal and interest are payable annually on April 15th with the interest rate being 3.0%.

Landfill Closure And Postclosure Costs. As more fully discussed in Note 5(D), long-term liabilities include \$8,595,222 in accrued landfill closure and postclosure costs. These liabilities are not included in the following discussion of debt service requirements.

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

Governmental Activities		
Year Ended June 30,	Tax Allocation Bonds	
	Principal	Interest
2012	\$ 265,000	\$ 747,374
2013	855,000	691,966
2014	910,000	659,740
2015	965,000	624,358
2016	1,020,000	582,189
2017-2021	3,380,000	2,337,768
2022-2026	3,890,000	1,313,610
2027-2031	1,680,000	156,288
	\$ 12,965,000	\$ 7,113,293

Business-Type Activities						
Year Ended June 30,	Revenue Bonds		State Loans		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,325,000	\$ 708,125	\$ 491,496	\$ 131,587	\$ 1,980,000	\$ 3,773,423
2013	1,410,000	625,312	507,028	101,001	2,045,000	3,694,122
2014	1,500,000	537,188	523,055	84,975	2,115,000	3,612,123
2015	1,610,000	443,438	539,591	68,437	2,200,000	3,527,048
2016	1,710,000	342,812	556,311	51,718	2,290,000	3,798,492
2017-2021	3,775,000	357,813	797,185	112,995	12,960,000	15,718,475
2022-2026	-	-	177,144	4,892	16,055,000	12,698,802
2027-2031	-	-	-	-	20,095,000	8,723,032
2032-2036	-	-	-	-	25,295,000	3,593,212
	\$ 11,330,000	\$ 3,014,688	\$ 3,591,810	\$ 555,605	\$ 85,035,000	\$ 59,138,729

E) Segment Information

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

4) Other Information

A) Risk Management

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

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

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

Separate internal service funds are maintained by the City for the City's deductibles and allocated share of pooled costs noted above. The total cash and investments held in these funds at June 30, 2011, was \$688,902 which management believes is adequate to finance the City's share of any losses.

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

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

B) Related Organizations

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

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

The City is currently involved in several hydroelectric, geothermal and other energy related projects as a member of this agreement. The NCPA is financed by contributions from member cities, government grants and debt. The City is committed to provide substantial additional financial support for its portion of the actions and projects of the NCPA. During the year ended June 30, 2011, the City paid \$6,517,362 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, 2011, the City's balance held in the reserve was \$8,889,150. Due to the nature of the reserve held by NCPA, payments made to the reserve are expensed as purchased power.

CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Redwood Empire Municipal Insurance Fund (REMIF) - A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and worker's compensation insurance. A Commission comprised of one member appointed by each member city administers the Authority. As explained previously, the City provides for its general and workers' compensation insurance needs through REMIF. Annual premiums paid to the Authority were \$1,062,184. During the year, the City received distribution from REMIF totaling \$138,365 for surplus funds within REMIF's liability insurance program.

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

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

C) Contingencies

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

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

D) Landfill Closure And Postclosure Costs

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$8,595,222 (including \$853,136 for corrective action liability) as of June 30, 2011, 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, 2011, 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.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, held \$8,816,223 within its pooled investments designated for these purposes. The City has made a pledge of future service revenues for anticipated remaining expected costs, future inflation costs, and any additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example).

E) Service Contracts

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

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

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

F) Employee Retirement Systems

Plan Description:

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

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

State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City of Ukiah selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy:

Active plan members in the Plans are required to contribute 7.0% (10% for Police and Fire employees) of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate for fiscal 2010/11 was 20.785% for miscellaneous employees, 29.227% for police, and 25.669% 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 2010/11 the City's annual pension cost was \$2,589,557 (\$1,662,180 for Miscellaneous, \$613,093 for Police and \$314,284 for Fire) and the City actually contributed \$2,675,452. In addition, the City paid \$983,015 representing substantially all of the employees' required contributions under the terms of the City's various employee bargaining unit agreements. The annual required contribution for fiscal year 2010/11 was determined as part of the June 30, 2008, actuarial valuation.

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

Three-Year Trend Information					
Year Ending June 30,	Annual Pension Cost			Percentage Contributed	Net Pension Obligation
	Miscellaneous	Police	Fire		
2009	\$ 1,382,771	\$ 540,944	\$ 270,113	100%	\$ -
2010	1,686,803	650,253	338,396	100%	-
2011	1,662,180	613,093	314,284	100%	-

The actuarial value of the Plan's assets was determined using a 15-year smoothed market technique that smoothes the effect of short-term volatility in the market value of investments over a multi-year period depending on the size of the investment gains and/or losses. Each Plan's unfunded actuarial liability is being amortized as a level percentage of projected payrolls over a closed period that began on the Plan's date of entry into the CalPERS system. Subsequent Plan amendments are amortized over 20 years. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period on the total unfunded liability may not be lower than 30 years. As of June 30, 2010 (the latest actuarial valuation date), the remaining average amortization period was 17 years for Miscellaneous, and 26 years for Police and Fire.

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

G) Deferred Compensation

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

H) Extraordinary Item

Under the provisions of AB 26x4 passed by the California State Legislature in response to the State's looming budget deficient, the Ukiah Redevelopment Agency was required to remit a payment of \$359,188 to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF).

I) Dissolution of the Ukiah Redevelopment Agency

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

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

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

**CITY OF UKIAH
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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

J) Prior Period Adjustment

An adjustment has been made to the June 30, 2010, fund balance of the City's General Fund to accrual additional sales tax proceeds receivable at that date. The effect of the adjustment increased reported net assets by \$547,388 to \$123,189,879. As a result of the adjustments the change in net assets reported for the year ended June 30, 2010, increased by \$200,942.

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, 2011**

	<u>Budgeted Amounts</u>		<u>General</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
<u>REVENUES</u>				<u>(Negative)</u>
Taxes:				
Property	\$ 1,170,000	\$ 1,178,700	\$ 1,229,796	\$ 51,096
Sales and use	5,496,311	5,986,840	6,260,583	273,743
Property transfer	35,000	33,700	23,424	(10,276)
Transient occupancy	603,750	614,869	691,627	76,758
Business license	227,630	320,264	319,510	(754)
Franchise	552,372	544,772	548,783	4,011
Licenses and permits	128,050	133,800	344,593	210,793
Fines, forfeitures, and penalties	20,500	52,662	59,166	6,504
From other agencies	1,385,129	1,389,129	1,459,198	70,069
Use of money and property	747,769	895,867	941,344	45,477
Charges for current services	801,150	1,143,402	1,267,519	124,117
Other	46,000	1,000	1,524	524
Total Revenues	<u>11,213,661</u>	<u>12,295,005</u>	<u>13,147,067</u>	<u>852,062</u>
<u>EXPENDITURES</u>				
Current:				
General government	1,671,440	2,043,610	1,690,245	353,365
Public safety	8,463,970	8,542,179	8,500,137	42,042
Streets and roads	1,035,951	1,054,488	1,467,200	(412,712)
Parks and recreation	1,874,219	2,224,968	2,280,871	(55,903)
Community development	103,599	179,108	89,070	90,038
Debt service	12,552	12,552	355	12,197
Capital outlay	52,500	107,452	149,454	(42,002)
Total Expenditures	<u>13,214,231</u>	<u>14,164,357</u>	<u>14,177,332</u>	<u>(12,975)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,000,570)</u>	<u>(1,869,352)</u>	<u>(1,030,265)</u>	<u>839,087</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,060,000	984,667	1,030,115	45,448
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>1,060,000</u>	<u>984,667</u>	<u>1,030,115</u>	<u>45,448</u>
Net Change In Fund Balances	<u>(940,570)</u>	<u>(884,685)</u>	<u>(150)</u>	<u>884,535</u>
Fund Balances, July 1,	5,690,562	5,690,562	5,690,562	-
Prior period adjustments			547,388	547,388
Fund Balance, July 1, as restated	<u>5,690,562</u>	<u>5,690,562</u>	<u>6,237,950</u>	<u>547,388</u>
Fund Balances, June 30,	<u>\$ 4,749,992</u>	<u>\$ 4,805,877</u>	<u>\$ 6,237,800</u>	<u>\$ 1,431,923</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]
06/30/08	\$ 39,778,271	\$ 51,178,198	\$ 11,399,927	77.7%	\$ 7,612,226	149.8%
06/30/09	41,387,732	56,077,434	14,689,702	73.8%	7,657,251	191.8%
06/30/10	43,284,701	59,483,106	16,198,405	72.8%	7,617,574	212.6%

OTHER COMPLIANCE REPORTS

**CITY OF UKIAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass Through Program Title	Federal CFDA Number	Federal Expenditures
<u>Department of Housing and Urban Development</u>		
Passed through State Department of Housing and Community Development:		
Community Development Block Grant 09-STBG-6417	14.288	\$ 136,208
Home Investment Partnerships Program: 08-HOME-4688	14.239	464,168
Total Department of Housing and Urban Development		<u>600,376</u>
<u>Department of Transportation</u>		
Passed through State Department of Transportation:		
ARRA - Highway Planning and Construction: ESPL-5049(022)	20.205	378,655
Total Department of Transportation		<u>378,655</u>
<u>Department of Justice</u>		
Public Safety Partnership and Community Policing Grants:		
ARRA - COPS Hiring Recovery Program: 2009RKWX0124	16.710	83,693
Edward Byrne Memorial Justice Assistance Grant: 2010DJBX0718	16.738	10,541
2009DJBX0763	16.738	1,043
Federal Asset Seizure: DEA #08-DEA-493980	16.999	23,495
Total Department of Justice		<u>118,772</u>
TOTALS		<u>\$ 1,097,803</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF UKIAH
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
JUNE 30, 2011**

NOTE A SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and other awards is a summary of the activity of the City of Ukiah's federal and other award programs and has been prepared on an accounting basis consistent with the government-wide financial statements of the City of Ukiah. Therefore, all of the grants presented on the accompanying schedule have been accounted for using the accrual basis of accounting as described in Note 1(c) of the City of Ukiah's Notes to Financial Statements.



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

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

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

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

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Ukiah, California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 23, 2012, which was modified to explain the possible dissolution of the Ukiah Redevelopment Agency (a component unit of the City). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Davis Hammon & Co.

January 23, 2012



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

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

Compliance

We have audited the compliance of the City of Ukiah, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2011. The City of Ukiah's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Ukiah's management. Our responsibility is to express an opinion on the City of Ukiah's compliance based on our audit.

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

In our opinion, the City of Ukiah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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



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

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

Davis Hammon & Co.

January 23, 2012

**CITY OF UKIAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

A) Summary of Audit Results

- 1) The auditors' report expresses an unqualified opinion on the basic financial statements. The report was modified to explain the possible dissolution of the Ukiah Redevelopment Agency (a component unit of the City).
- 2) No control deficiencies were disclosed related to the audit of the basic financial statements of the City of Ukiah.
- 3) No instances of noncompliance material to the basic financial statements of the City of Ukiah were disclosed during the audit.
- 4) No control deficiencies were disclosed during the audit of major federal award programs.
- 5) The auditors' report on compliance for major federal award programs for the City of Ukiah expresses an unqualified opinion.
- 6) No instances of noncompliance material to major federal award programs of the City of Ukiah were disclosed during the audit.
- 7) The programs tested as major programs included:
 - a. Department of Housing and Urban Development
HOME Investment Partnerships Program
CFDA: 14.239
 - b. Department of Transportation
Highway Planning and Research Program
CFDA: 20.205
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) The City of Ukiah was determined not to be a low-risk auditee.

B) Findings – Financial Statement Audit

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

Status of prior year findings:

2010-01: Noncompliance with Rate Covenant

Criteria and Condition: The City has entered into an installment obligation with the Association of Bay Area Governments (ABAG). As part of that obligation, the City has made a covenant to maintain water system rates and charges at a level sufficient to cover certain specified costs and expenses, including operations and maintenance costs and debt service payments.

Context: Based on the terms as defined in the installment obligation agreement, the gross revenues from the City's water system were \$271,173 less than the amount needed to meet the terms of the covenant, and the net revenue fell short by \$485,445.

Recommendation: The City needs to monitor water system rates and charges in relation to costs and expenses to ensure compliance with the revenue covenant.

Current Status: The City was in compliance with the various rate covenants for the year ended June 30, 2011.



DAVIS HAMMON & CO.
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**INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES APPLIED
TO APPROPRIATIONS LIMIT WORKSHEETS**

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

We have applied the procedures enumerated below to the Appropriations Limit calculations of the City of Ukiah for the year ended June 30, 2011. 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: The annual limit adopted by the City Council resolution did not agree with the limit as computed by the alternate computation worksheets. The amount adopted by resolution was \$31,760,230 while the alternate worksheets computed a limit of \$31,074,238.

- 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.

January 23, 2012