

**UKIAH REDEVELOPMENT AGENCY
FINANCIAL STATEMENTS**

TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS

FOR THE YEAR ENDED JUNE 30, 2011

**UKIAH REDEVELOPMENT AGENCY
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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
Acting as the Governing Body for the
Ukiah Redevelopment Agency
Ukiah, California 95482

We have audited the accompanying financial statements of the governmental activities of the Ukiah Redevelopment Agency as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ukiah Redevelopment Agency's management. Our responsibility is to express an opinion 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities of the Ukiah Redevelopment Agency as of June 30, 2011, and the respective change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 5, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of Ukiah Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 is important for 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 budgetary comparison information on pages 4 through 9 and 25 through 26, 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 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.

Davis Hammon & Co.

December 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Ukiah Redevelopment Agency (the Agency) is a Community Redevelopment Agency created in 1989 under the California Redevelopment Law to revitalize urban areas. The Agency's boundaries are within the City of Ukiah's city limits covering approximately 1,369 acres which include commercial, residential, industrial and public facility uses. It is governed by a Commission comprised of members of the Ukiah City Council and the activities of the Agency benefit the citizens of Ukiah.

The following Management Discussion and Analysis (MD&A) provides a comprehensive overview of the Agency's financial position as of June 30, 2011 and the results of its operations for the year. The MD&A should be read in conjunction with the audited Financial Statements and related footnotes of the Agency which directly follow the MD&A.

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

1. FINANCIAL HIGHLIGHTS

- Current and other assets increased by \$1,744 or 11.8% from \$14,776 in FY2010 to \$16,520 in FY2011 while Capital Assets decreased 74.8% from \$3,981 in FY2010 to \$1,003 in FY2011.
- Net assets ended the year at \$1,158, down 84.4% from \$7,405 in the prior year.
- Total revenues from all sources were \$3,351 down from the prior year at \$4,157.
- Total expenses decreased by \$7,140 from \$10,409 in FY2010 to \$3,269 in FY2011.

2. USING THIS ANNUAL REPORT

This annual report consists of three parts – Management's Discussion and Analysis (MD&A - this portion), the basic financial statements, and the required supplemental information.

The basic financial statements consist of: a Statement of Net Assets; a Statement of Activities; a Balance Sheet; a Combined Statement of Revenues, Expenditures and Changes in Fund Balance; and accompanying notes. These statements provide information on the financial position of the Agency and the financial activity and results of operations during the year.

The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities. 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 Agency's net assets and changes thereto. Net assets, the difference between assets and liabilities, is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the Agency is improving or deteriorating.

3. FINANCIAL ANALYSIS OF AGENCY STATEMENTS

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

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

	Governmental Activities		Change	
	2011	2010	Amount	Percent
Assets:				
Current and other assets	16,520	14,776	1,744	11.8%
Capital assets	1,003	3,981	(2,978)	-74.8%
Total assets	17,523	18,757	(1,234)	-6.6%
Liabilities:				
Long-term debt outstanding	12,667	4,727	7,940	167.9%
Other liabilities	3,698	6,625	(2,927)	-44.2%
Total liabilities	16,365	11,352	5,013	44.2%
Net assets:				
Restricted for:				
Low & moderate income housing	2,112	2,249	(137)	-6.1%
Debt Service	1,811	475	1,336	281.4%
Capital Projects	8,650	1,130	7,520	665.5%
Unrestricted	(11,416)	3,551	(14,967)	-421.5%
Total net assets	1,158	7,405	(6,247)	-84.4%

(in Thousands)

The Agency's net assets for the fiscal year ended June 30, 2011 were \$1,158, a decrease of 84.4% from the prior year's total of \$7,405. Current and other assets increased \$1,411 or up 11.8%. The increase in cash from the two 2011 bond issues was offset by the change in Real Property Held Primarily for Resale, down \$4,198 from FY2010. The Long-term debt outstanding increased from \$4,727 in FY2010 to \$12,667 in FY 2011 primarily due to the placement of two new debt issuances. The non-housing bond issue (Series 2011A) totaled \$5,030 (net of \$150 discount); the housing bonds issue (series 2011B) totaled \$3,151 (net of \$99 discount).

Governmental Activities

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

	Governmental Activities		Change
	2011	2010	
Revenues:			
Program revenues:			
Charges for services	53	87	(34)
Operating grants and contributions	22	-	22
Capital grants and contributions	-	-	-
Other	-	-	-
Taxes	3,196	3,864	(667)
Use of money and property	80	206	(126)
Total revenues	<u>3,351</u>	<u>4,157</u>	<u>(806)</u>
Expenses:			
Governmental Activities			
General administration	800	737	63
Low & moderate income housing	772	546	226
Capital Projects	1,245	8,808	(7,563)
Debt Service	-	-	-
Interest & fiscal charges	453	318	134
Total expenses	<u>3,269</u>	<u>10,409</u>	<u>(7,140)</u>
Increase N.A. before Transfers	82	(6,252)	6,334
Special Item-transfer to City of Ukiah	(5,969)		(5,969)
Extraordinary item-SERAF payment	(360)	(1,746)	1,387
Change in Net Assets	(6,247)	(7,998)	1,752
Beginning Net Assets	<u>7,405</u>	<u>15,403</u>	<u>(7,998)</u>
Ending Net Assets	<u><u>1,158</u></u>	<u><u>7,405</u></u>	<u><u>(6,247)</u></u>

Tax increment revenues decreased \$667 or 17% from \$3,864 for FY2010, to \$3,196 for FY2011 as the economy continues to negatively impact housing prices. Use of money and property was also down from FY2010 reflecting a reduction in the return on investments.

The reduction in the total expenses from \$10,409 for FY2010 to \$3,269 for FY2011 was a decrease of \$7,140 or -68%. FY2010 Capital Projects included a number of property acquisitions including \$4,198 of Real Property Held for Resale. The decrease in expenditures for Capital Projects was offset in part by increases in General Administration (\$63), Low & moderate housing (\$226), and Debt Service charges (\$134).

The Special Item was a transfer of \$3,941 of land and a net \$2,028 of cash to the City of Ukiah, based on an agreement entered into by the Agency with the City whereby the City agreed to be responsible for the design and construction of public improvements within the Redwood Business Park. The Agency would pay up to \$6 million to the City for obligations incurred under the agreement. The agreement also includes a pledge of tax increment revenues for this purpose.

The Extraordinary Item was a \$360 payment to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF) under provisions of AB 26x4 passed by the California State Legislature.

4. CAPITAL ASSETS

Table 3
Capital Assets
Government Activities
For the Fiscal Years Ended June 30, 2011 and 2010
(Stated in Thousands)

	Fiscal Year Ended June 30		Change
	2011	2010	
Nondepreciable Capital Assets			
Land	-	3,569	(3,569)
Construction in Process	967	378	589
Total Nondepreciable Capital Assets	<u>967</u>	<u>3,946</u>	<u>(2,980)</u>
Depreciable Capital Assets			
Buildings	9	9	-
Machinery & Equipment	42	37	6
Total Depreciable Capital Assets	<u>51</u>	<u>45</u>	<u>6</u>
Less: Accumulated Depreciation	(14)	(10)	(4)
Depreciable Assets-net	<u>37</u>	<u>35</u>	<u>2</u>
Governmental Activities Capital Assets-net	<u><u>1,003</u></u>	<u><u>3,981</u></u>	<u><u>(2,978)</u></u>

Nondepreciable Capital Assets decreased \$2,980 or 75.5%, from \$3,946 to \$967, due to the transfer of land from the Agency to the City of Ukiah as part of an agreement reached by the Agency and the City. This was offset, in part, by an increase in Construction in Process for projects including improvements to the Redwood Business Park (\$157), the Perkins Street Railroad property (\$314), and the Grace Hudson Museum (\$19).

5. LONG TERM DEBT

Table 5
Long Term Debt
 For the Fiscal Years Ended June 30, 2011 and 2010
(Stated in Thousands)

	Fiscal Year Ended June 30		Change	Due Within
	2011	2010		One Year
Government Activities				
Tax Allocation Bonds-Series 2007	4,535	4,785	(250)	265
Tax Allocation Bonds-Series 2011A	5,180	-	5,180	-
Tax Allocation Bonds-Series 2007	3,250	-	3,250	-
Deferred Amounts				
Issuance Discounts	(298)	(58)	(240)	-
	<u>12,667</u>	<u>4,727</u>	<u>7,940</u>	<u>265</u>
Governmental Activities Long Term Liabilities	<u>12,667</u>	<u>4,727</u>	<u>7,940</u>	<u>265</u>

6. CASH MANAGEMENT

The City of Ukiah 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 Agency’s funds are invested by the City of Ukiah which 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 Agency’s investment policy. The goals of the City’s investment policy are safety, liquidity, and yield.

7. NEXT YEAR’S BUDGET AND ECONOMIC FACTORS

Assembly Bills X1 26 and X1 27:

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 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Assembly Bill X1 26 indicates that the city “may use any available funds not otherwise obligated for other uses” to make this payment. The City of Ukiah (“City”) intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective.

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, specifically the provisions in Proposition 1A and Proposition 22. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26.

On August 3, 2011, City Ordinance No. 1131 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or X1 27 are upheld as constitutional. The initial payment by the City is estimated to be \$1.59 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$419 thousand will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and moderate- income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill X1 26. The Court has indicated that it will make a ruling prior to the payment of the first installment due January 15, 2012.

The ruling of the court could uphold both Assembly Bills X1 26 and X1 27, declare both unconstitutional, or could make some determination of the constitutionality of some of one or the other, or both. Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012, should the payments be upheld. However, the future of Redevelopment Agencies in the state is completely unknown at the time of the publication of this information. In the event that Assembly Bills X1 26 and/or X1 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

Debt:

On March 8, 2011, the Agency issued \$3,250,000 in Taxable Tax Allocation Housing Bonds, and \$5,180,000 in Tax Exempt Tax Allocation Non-Housing Bonds. Proceeds from the Housing Bonds will be used for the development of affordable housing. Proceeds from the Non-Housing Bonds will be used for the development of infrastructure, and commercial improvements.

Economic Development:

The Agency has been working on the Redwood Business Park Economic Revitalization Project, and has successfully assembled property and secured a letter of intent with Costco Wholesale. In addition, the Agency is currently producing the plans and specifications for a number of infrastructure projects that will improve traffic, drainage, and utility service to support the entire business park. Similarly, the Agency has been actively redeveloping the Perkins Railroad Depot Property, which is one of the primary sites under consideration for the State's new \$129 million courthouse project. Bond proceeds will be used to finance cleanup and necessary public infrastructure improvements.

SUMMARY

8. CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**UKIAH REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and investments	\$ 5,784,289
Cash with fiscal agent	8,492,742
Deferred charges	283,684
Receivables:	
Accounts	22,555
Property taxes	249,413
Loans	1,686,971
Capital assets (net of accumulated depreciation)	1,003,274
Total Assets	17,522,928
 <u>LIABILITIES</u> 	
Liabilities:	
Accounts payable and other current liabilities	691,018
Accrued interest payable	161,034
Deferred income	1,686,471
Due to City of Ukiah	1,159,549
Noncurrent Liabilities:	
Due within one year	265,000
Due in more than one year	12,401,905
Total Liabilities	16,364,977
 <u>NET ASSETS</u> 	
Restricted For:	
Low and moderate income housing	2,112,447
Debt service	1,811,217
Capital projects	8,649,846
Unrestricted	(11,415,559)
Total Net Assets	\$ 1,157,951

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

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

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue And Changes In Net Assets</u>	
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General administration	\$ 799,867	\$ -	\$ -	\$ -	\$ (799,867)
Low and moderate income housing	771,770	53,300			(718,470)
Capital projects	1,244,879	3	21,555		(1,223,321)
Debt service:					
Interest and fiscal charges	452,786				(452,786)
Total Governmental Activities	<u>\$ 3,269,302</u>	<u>\$ 53,303</u>	<u>\$ 21,555</u>	<u>\$ -</u>	<u>(3,194,444)</u>
General Revenues:					
Taxes					3,196,454
Use of money and property					79,795
Total General Revenues And Transfers					<u>3,276,249</u>
Special Item: Payments to City of Ukiah					(5,969,231)
Extraordinary item: SERAF payment					<u>(359,507)</u>
Change In Net Assets					(6,246,933)
Net Assets - beginning					7,404,884
Net Assets - Ending					<u>\$ 1,157,951</u>

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

**UKIAH REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

<u>ASSETS</u>	General	Low & Moderate Income Housing	Debt Service	Housing Bond Debt Service	Housing Bond Capital Projects	Non-Housing Bond Capital Projects	Capital Projects	Total Governmental Funds
Cash and investments	\$ 49,311	\$ 2,102,089	\$ 1,663,030	\$ 102,281	\$ -	\$ -	\$ 1,867,578	\$ 5,784,289
Cash with fiscal agent			1,031,379	337,110	2,731,265	4,392,988		8,492,742
Receivables:								
Accounts		1,000					21,555	22,555
Property taxes		47,868					201,545	249,413
Loans		1,686,971						1,686,971
Due from other funds							182	182
Total Assets	\$ 49,311	\$ 3,837,928	\$ 2,694,409	\$ 439,391	\$ 2,731,265	\$ 4,392,988	\$ 2,090,860	\$ 16,236,152
<u>LIABILITIES AND FUND EQUITY</u>								
Liabilities:								
Accounts payable	\$ 314	\$ 1,981	\$ 2,000	\$ -	\$ 102	\$ 102	\$ 564,881	\$ 569,380
Accrued salaries & benefits	38,465	15,686						54,151
Accrued compensated absences	46,144	21,343						67,487
Deferred income		1,686,471						1,686,471
Due to other funds					91	91		182
Due to City of Ukiah			1,159,549					1,159,549
Total Liabilities	84,923	1,725,481	1,161,549	-	193	193	564,881	3,537,220
Fund Balances:								
Restricted:								
Low and moderate income housing		2,112,447						2,112,447
Debt service			1,532,860	439,391				1,972,251
Capital outlay					2,731,072	4,392,795	1,525,979	8,649,846
Unassigned	(35,612)							(35,612)
Total Fund Balances	(35,612)	2,112,447	1,532,860	439,391	2,731,072	4,392,795	1,525,979	12,698,932
Total Liabilities and Fund Balances	\$ 49,311	\$ 3,837,928	\$ 2,694,409	\$ 439,391	\$ 2,731,265	\$ 4,392,988	\$ 2,090,860	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets	\$ 1,017,364	
Accumulated depreciation	(14,090)	1,003,274

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Tax allocation bonds	\$ (12,965,000)	
Deferred charge for issue costs (amortized over life of debt)	283,684	
Bond issuance discount (amortized over life of debt)	298,095	
Accrued interest payable on long-term debt	(161,034)	(12,544,255)

Net Assets Of Governmental Activities

\$ 1,157,951

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

**UKIAH REDEVELOPMENT AGENCY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>REVENUES</u>	General	Low & Moderate Income Housing	Debt Service	Housing Bond Debt Service	Housing Bond Capital Projects	Non-Housing Bond Capital Projects	Capital Projects	Total Governmental Funds
Taxes	\$ 808,288	\$ 954,002	\$ -	\$ 101,288	\$ -	\$ -	\$ 1,332,876	\$ 3,196,454
From other agencies							21,555	21,555
Use of money and property		53,297	38,377	993	110	700	39,615	133,092
Other revenues		3					3	6
Total Revenues	808,288	1,007,302	38,377	102,281	110	700	1,394,049	3,351,107
 <u>EXPENDITURES</u>								
Current:								
Salaries and benefits	664,193	281,183						945,376
Operating expenses	65,294	233,801					1,244,493	1,543,588
Contractual services	28,434	244,942			193	193		273,762
Governmental services	38,196	11,844						50,040
Debt service:								
Principal			250,000					250,000
Interest and fiscal charges			291,160					291,160
Issue costs			110,365	82,443				192,808
Capital outlay		372,155					594,457	966,612
Total Expenditures	796,117	1,143,925	651,525	82,443	193	193	1,838,950	4,513,346
Excess (Deficiency) of Revenues Over Expenditures	12,171	(136,623)	(613,148)	19,838	(83)	507	(444,901)	(1,162,239)
 <u>OTHER FINANCING SOURCES (USES)</u>								
Proceeds from bonds issued			787,712	518,845	2,731,155	4,392,288		8,430,000
Discount on bonds issued			(149,846)	(99,292)				(249,138)
Transfers in							150,000	150,000
Transfers out			(150,000)					(150,000)
Total Other Financing Sources (Uses)	-	-	487,866	419,553	2,731,155	4,392,288	150,000	8,180,862
Special item: payment to City of Ukiah	(95,000)		(790,000)				(1,143,389)	(2,028,389)
Extraordinary item: SERAF payment							(359,507)	(359,507)
Net Change In Fund Balances	(82,829)	(136,623)	(915,282)	439,391	2,731,072	4,392,795	(1,797,797)	4,630,727
Fund Balances, July 1,	47,217	2,249,070	2,448,142	-	-	-	3,323,776	8,068,205
Fund Balances, June 30,	\$ (35,612)	\$ 2,112,447	\$ 1,532,860	\$ 439,391	\$ 2,731,072	\$ 4,392,795	\$ 1,525,979	\$ 12,698,932

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

**UKIAH REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE 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	\$	4,630,727
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	\$	966,612
Depreciation		(3,750)
Land sold to City of Ukiah		(3,940,842)
		(2,977,980)
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:		
Proceeds from issuance of long-term debt	\$	(8,430,000)
Discount on bonds issued		249,138
Bond issue costs		192,808
Long-term bond principal payments		250,000
		(7,738,054)
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 payable	\$	(142,583)
Amortization of bond issue costs		(10,378)
Amortization of bond discount		(8,665)
		(161,626)
Change In Net Assets Of Governmental Activities	\$	(6,246,933)

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

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1) Summary of Significant Accounting Policies

A) Reporting Entity

The Ukiah Redevelopment Agency is a Community Redevelopment Agency formed, organized and existing pursuant to the provisions of Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code. Pursuant to said law, the Agency is vested with the responsibility of carrying out a duly adopted redevelopment plan.

The financial statements of the Ukiah Redevelopment Agency have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Agency are described below.

Reporting Entity. The Ukiah Redevelopment Agency does not have any component units as determined under criteria established by GASB. However, the Agency's boundaries are within the City of Ukiah's city limits, it is governed by a Commission comprised of the members of the Ukiah City Council, and activities of the Agency will benefit the citizens of Ukiah. The Agency, therefore, is considered a component unit of the City of Ukiah. The City of Ukiah exercises significant financial and management control over the Agency. Therefore, the financial data of the Ukiah Redevelopment Agency have also been included within the City of Ukiah's annual financial report for the fiscal year ended June 30, 2011.

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 Agency. 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 Agency has no business-type activities.

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. The Agency has no proprietary or fiduciary funds. Major individual governmental 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*. 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 to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Property taxes 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 Agency.

The Agency reports the following major governmental funds:

The General Fund is the Agency'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 Low & Moderate Income Housing Fund is a special revenue fund that accounts for resources accumulated and activities of the 20% set-a-side as required by the California Health & Safety Code Section 33334.3.

The Debt Service Fund and Housing Bond Debt Service Fund account for resources accumulated and payments made for principal and interest on long-term general obligation debt of the Agency.

The Capital Projects Fund, Housing Bond Capital Projects Fund and Non-Housing Bond Capital Projects Fund account for resources accumulated and activities associated with the acquisition and construction of general fixed assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

D) Assets, Liabilities, And Net Assets Or Equity

1) Cash And Investments

Investments for the Agency are reported at fair value. The Agency'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. The Agency's investments are held in the City of Ukiah's pooled investments.

2) Receivables And Payables

Activity between the Agency and the City of Ukiah that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "Due from the City of Ukiah" (i.e. the current portion of Inter-agency loans).

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. No allowances for uncollectible receivables were recorded, as amounts were deemed immaterial as 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 Agency relies on the competency of the County of Mendocino Assessor's office to properly assess, collect and distribute property taxes.

3) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the governmental-wide financial statements. Capital assets are defined by the Agency 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.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

As of the balance sheet date, the Agency did not own any infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). As required by GASB Statement No. 34 (GASB-34), the Agency will begin reporting infrastructure assets as infrastructure assets are acquired or constructed. During the current fiscal period no infrastructure assets were acquired or constructed.

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. No interest was capitalized during the year ended June 30, 2011.

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.

Property, plant and equipment of the Agency are depreciated using the straight-line method using the following useful lives:

	Years
Machinery and equipment	5 - 20 years

4) Compensated Absences

It is the Agency's policy to allow an employee to accumulate no more than two years vacation. Full time Agency 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 Agency. All vacation pay is accrued when incurred in both the government-wide and fund financial statements.

5) Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The cost of issuance and original issue discounts associated with the Agency's long-term debt have been capitalized and are being amortized over the life of the debt issue using the straight-line method.

6) Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation, legally restricted by outside parties, or internally committed by the Agency for use for a specific purpose.

2) Stewardship, Compliance And Accountability

A) Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principals for all governmental funds. Annually, each Agency department submits a request for appropriation to the Executive Director 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 Board of Commissioners for review. The Board of Commissioners 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 Executive Director or the revenue estimates must be changed by an affirmative vote of a majority of the Board of Commissioners.

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations totaling \$443,801 were adopted.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

B) Excess Of Expenditures Over Appropriations

Expenditures did not exceed appropriations in any of the Agency's funds.

C) Deficit Fund Equity

At June 30, 2011, the Agency's General Fund reported a deficit fund balance of (\$35,612).

3) Detailed Notes On All Other Funds

A) Cash And Investments

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

Statement of Net Assets:

Cash and investments - City of Ukiah Investment Pool	\$ 5,784,287
Cash with fiscal agent	8,492,742
Total Cash and Investments	\$ 14,277,029

Authorized Investments – Investment Policy

The Agency's investment policy is the same as the City of Ukiah, and the Agency's funds are pooled within the authorized pool of investments of the City. The table below identifies the types of investments that are authorized by the City's, and therefore Agency'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 Agency's investment policy or California Government Code. The indenture agreements do not specifically identify maximum maturity and maximum investment provisions. The indenture agreements do identify the following permitted investments:

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

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Disclosures Relating to 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. As of June 30, 2011, the Agency's investments had no significant exposure to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency does not hold direct investments; therefore, there is no concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by 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 at least 110% of the total amount deposited by the public agencies. California law also allows deposits to be secured by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

B) Capital Assets

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Government Activities:				
Nondepreciable Capital Assets:				
Land	\$ 3,568,687	\$ 372,155	\$ 3,940,842	\$ -
Construction in progress	\$ 377,730	588,777		966,507
Total Nondepreciable Capital Assets	<u>3,946,417</u>	<u>960,932</u>	<u>3,940,842</u>	<u>966,507</u>
Depreciable Capital Assets:				
Buildings	8,587			8,587
Machinery and equipment	36,590	5,680		42,270
Total Depreciable Capital Assets	<u>45,177</u>	<u>5,680</u>	<u>-</u>	<u>50,857</u>
Less: Accumulated Depreciation:				
Machinery and equipment	(10,340)	(3,750)		(14,090)
Total Accumulated Depreciation	<u>(10,340)</u>	<u>(3,750)</u>	<u>-</u>	<u>(14,090)</u>
Depreciable Capital Assets, net	<u>34,837</u>	<u>1,930</u>	<u>-</u>	<u>36,767</u>
Governmental Activities Capital Assets, net	<u>\$ 3,981,254</u>	<u>\$ 962,862</u>	<u>\$ 3,940,842</u>	<u>\$ 1,003,274</u>

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

Governmental Activities:	
General administration	\$ 3,750
Total Depreciation Expense - Governmental Activities	<u>\$ 3,750</u>

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

C) Interfund Receivables, Payables And Transfers

The Agency made a \$150,000 interfund transfer from the Debt Service Fund to the Capital Projects Fund to provide funding for a redevelopment project.

D) Long-Term Debt

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>

Ukiah Redevelopment Agency Tax Allocation Refunding Bonds, Series 2007. The Agency issued \$5,595,000 in tax allocation refunding bonds dated April 18, 2007. The proceeds from the bond issue were used to refund the Agency's loan obligation under an agreement with the Redwood Empire Financing Authority described below. The refunding took advantage of lower interest rates that were available. There was no difference between the reacquisition price and the carrying amount of the old debt.

The 2007 bonds bear annual interest at varying rates between 3.65% and 4.75%. The bonds were issued in fully registered form without coupons in denominations of \$5,000. Interest on bonds becomes payable commencing December 1, 2007 and semi-annually thereafter each December 1st and June 1st. Principal is paid in annual installments commencing December 1, 2007 through the year 2023 in amounts ranging from \$390,000 through \$450,000. The bonds are payable solely from, and secured by, a pledge of tax increment revenues allocated to the agency.

Ukiah Redevelopment Agency Tax Allocation Bonds, Series 2011A. The Agency issued \$5,180,000 in tax allocation refunding bonds dated March 8, 2011. The proceeds from the bond issue will be used to fund certain redevelopment activities of benefit to the Agency.

The 2011A bonds bear annual interest at varying rates between 3.00% and 6.83%. The bonds were issued in fully registered form without coupons in denominations of \$5,000. Interest on bonds becomes payable commencing December 1, 2011 and semi-annually thereafter each December 1st and June 1st. Principal and sinking fund payments are paid in annual installments commencing December 1, 2012 through the year 2028 in amounts ranging from \$10,000 through \$620,000. The bonds are payable solely from, and secured by, a pledge of tax increment revenues allocated to the agency.

Ukiah Redevelopment Agency Taxable Tax Allocation Housing Bonds, Series 2011B. The Agency issued \$3,250,000 in tax allocation refunding bonds dated March 8, 2011. The proceeds from the bond issue will be used to fund certain redevelopment activities to improve and preserve the supply of low and moderate income housing within the City of Ukiah.

The 2011B bonds bear annual interest at varying rates between 3.25% and 9.25%. The bonds were issued in fully registered form without coupons in denominations of \$5,000. Interest on bonds becomes payable commencing August 1, 2011 and semi-annually thereafter each February 1st and August 1st. Principal and sinking fund payments are paid in annual installments commencing August 1, 2012 through the year 2026 in amounts ranging from \$75,000 through \$435,000. The bonds are payable solely from the 20% housing tax increment allocated to the Agency.

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Debt service requirements to maturity for bonds payable by the Ukiah Redevelopment Agency are presented on the following schedule.

Year Ended June 30,	Governmental Activities	
	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

4) Other Information

A) Risk Management

The Agency 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 Agency provides property, liability, and worker's compensation insurance through the City of Ukiah as a member of 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 Agency pays a proportionate share of the City's 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.

The Agency's deductible is \$10,000 for worker's compensation and property losses, and \$25,000 for liability loss, all per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

B) Restricted Net Assets

The Agency has entered into agreements with several outside entities whereby the Agency must set aside a portion of its tax increment revenues. Under the terms of these agreements, the outside agencies may use their portion of the increment for projects that meet the requirements of Community Redevelopment Law and have been approved by the Agency. Because expenditure of these amounts is dependent upon future qualified redevelopment projects, and the formal approval of the Agency, no liability has been established for the above amounts. The Agency has, however, restricted a portion of net assets for the above agreements. The following is a schedule of the June 30, 2011, restricted net asset balances:

	Low & Moderate Income Housing	Debt Service	Capital Projects
Mendocino-Lake Community College District			\$ 592,879
County of Mendocino	\$ 624,133		
Mendocino County Office of Education			57,731
Ukiah Unified School District			479,335
Ukiah Low & Moderate Income Housing Projects	1,488,314		2,731,072
City of Ukiah Redevelopment Capital Projects			4,788,829
Tax allocation bond debt service		\$ 1,811,217	
	\$ 2,112,447	\$ 1,811,217	\$ 8,649,846

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

C) Special and Extraordinary Items

Special Item – On March 2, 2011, the Agency entered into an agreement with City of Ukiah whereby the City agrees to be responsible for the design and construction of public improvements within the Redwood Business Park, with the Agency paying up to \$6 million to the City for obligations incurred under the agreement. The agreement includes a pledge of tax increment revenues for this purpose.

At the same time the Agency agreed to sell to the City of Ukiah certain land parcels owned by the Agency to the City for one dollar.

In connection with the agreements the Agency transferred \$3,301,749 in cash and \$3,940,842 in land to the City. Subsequent to the initial cash transfer, the City returned \$1,273,360 in cash the Agency.

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 \$359,507 to the Mendocino County Supplemental Revenue Augmentation Fund (SERAF).

D) New GASB Pronouncements Adopted

For the year ended June 30, 2011, the Agency has adopted the reporting provisions contained in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

5) Legislation Affecting California Redevelopment Agencies

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 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Ukiah ("City") intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

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

**UKIAH REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

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 August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 3, 2011, City Ordinance No. 1131 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$1.59 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$419 thousand will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTAL INFORMATION

**UKIAH REDEVELOPMENT AGENCY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund			Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>REVENUES</u>				
Taxes	\$ 808,288	\$ 808,288	\$ 808,288	\$ -
Total Revenues	<u>808,288</u>	<u>808,288</u>	<u>808,288</u>	<u>-</u>
<u>EXPENDITURES</u>				
Current:				
Salaries and benefits	640,401	643,543	664,193	(20,650)
Operating expenses	92,161	92,161	65,294	26,867
Contractual services	35,890	36,758	28,434	8,324
Governmental services	38,196	38,196	38,196	-
Total Expenditures	<u>806,648</u>	<u>810,658</u>	<u>796,117</u>	<u>14,541</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,640</u>	<u>(2,370)</u>	<u>12,171</u>	<u>14,541</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special item: payment to City of Ukiah	<u>-</u>	<u>-</u>	<u>(95,000)</u>	<u>(95,000)</u>
Net Change In Fund Balances	1,640	(2,370)	(82,829)	(80,459)
Fund Balances, July 1,	47,217	47,217	47,217	-
Fund Balances, June 30,	<u>\$ 48,857</u>	<u>\$ 44,847</u>	<u>\$ (35,612)</u>	<u>\$ (80,459)</u>

**UKIAH REDEVELOPMENT AGENCY
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	Low & Moderate Income Housing Fund			Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>REVENUES</u>				
Taxes	\$ 798,289	\$ 1,080,926	\$ 954,002	\$ (126,924)
Use of money and property	28,067	28,067	53,297	25,230
Other revenues			3	3
Total Revenues	<u>826,356</u>	<u>1,108,993</u>	<u>1,007,302</u>	<u>(101,691)</u>
<u>EXPENDITURES</u>				
Current:				
Salaries and benefits	280,766	282,270	281,183	1,087
Operating expenses	23,433	14,923	233,801	(218,878)
Contractual services	733,087	739,427	244,942	494,485
Governmental services	7,994	16,444	11,844	4,600
Capital outlay	983,840	983,840	372,155	611,685
Total Expenditures	<u>2,029,120</u>	<u>2,036,904</u>	<u>1,143,925</u>	<u>892,979</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,202,764)</u>	<u>(927,911)</u>	<u>(136,623)</u>	<u>791,288</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	(1,202,764)	(927,911)	(136,623)	791,288
Fund Balances, July 1,	2,249,070	2,249,070	2,249,070	-
Fund Balances, June 30,	<u>\$ 1,046,306</u>	<u>\$ 1,321,159</u>	<u>\$ 2,112,447</u>	<u>\$ 791,288</u>

COMPLIANCE SECTION



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

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

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

Honorable Mayor and City Council
Members of the City of Ukiah
Acting as the Governing Body for the
Ukiah Redevelopment Agency
Ukiah, California 95482

We have audited the basic financial statements of the Ukiah Redevelopment Agency, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. 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 Ukiah Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ukiah Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ukiah Redevelopment Agency'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

As part of obtaining reasonable assurance about whether the Ukiah Redevelopment Agency'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 material effect on the determination of financial statement amounts. Such provisions include the provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an



opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

This report is intended solely for the information and use of the Board of Commissioners, 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.

December 20, 2011

UKIAH REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

2011-1 Planning And Administrative Expenditures For The Low And Moderate Income Housing Fund

Finding:

The Agency did not make a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing.

Criteria:

California Health And Safety Code ("H&S") section 33334.3(d) requires the Agency to annually determine that planning and administrative expenses are necessary. The *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the California State Controller dictates that the determination must be in writing.

Cause:

The Agency made the determination as part of the annual budget preparation process, but failed to draft a written document specifically addressing the determination that such expenditures were necessary.

Effect:

H&S section 33080.8(j)(7) lists the failure to determine that the planning and administrative costs charged to the Low and Moderate Income Housing Fund are necessary is a "major audit violation."

Recommendation:

The Agency needs to take the steps necessary to correct the finding and ensure a written determination is made in all future years.

Management's Response:

The Agency developed and adopted its annual budget for the Low and Moderate Income Housing Fund, by resolution, with the understanding that this action was written determination that the included planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing, for that budget year.

It was brought to our attention that this was not sufficient, after the Auditors had completed their field work for Fiscal Year 2010-2011. The Agency quickly responded by adopting a resolution making the determination that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing, for Fiscal Year 2010-2011 on December 21, 2011.

The Agency will, in future years, make the appropriate written determination annually, as part of the annual budget resolution or as a separate action.