

CITY OF NAPA, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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**CITY OF NAPA, CALIFORNIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2011**

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**INDEPENDENT AUDITORS' REPORT ON
 BASIC FINANCIAL STATEMENTS**

To the City Council
 City of Napa, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa 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 basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the following fund financial statements. These fund financial statements were audited by other auditors, whose reports thereon have been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

	Represent Percentage of Total Amounts			
	Assets	Capital Assets	Long-Term Obligations	Revenue
Business Type Activities - Enterprise Fund				
Golf Course	0.05%	0.25%	0.06%	0.26%

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and Government Audit Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa at June 30, 2011, and the results of its operations and the cash flows of its proprietary fund types thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As disclosed in Note 18, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the ability of the Napa Community Redevelopment Agency, a component unit of the City, to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Napa Community Redevelopment Agency will continue as a going concern. The activities of the Napa Community Redevelopment Agency are included in the Parkway Plaza and Soscol Gateway project areas, Low and Moderate Income Housing Fund, Capital Projects Fund and Debt Service Fund for each project area, of the accompanying financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. As discussed in Note 11 to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements.

In accordance with Government Auditing Standards, we have also issued our report December 20, 2011, dated on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the basic component unit financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Napa. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maze & Associates

December 20, 2011

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

This narrative is presented to provide readers of these *Basic Financial Statements* with an overview and analysis of the financial activities of the City of Napa for the year ended June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report is presented in the following sections:

- 1) This introductory commentary, *Management's Discussion and Analysis*
- 2) Basic Financial Statements, including:
 - a. Government-wide financial statements
 - b. Fund financial statements
 - c. Notes
- 3) Supplemental Information
 - a. Non-major governmental funds
 - b. Internal service funds
 - c. Agency funds

The Basic Financial Statements

The *Basic Financial Statements* are comprised of the *Government-wide Financial Statements* and the *Fund Financial Statements*. These two sets of financial statements provide two different views of the City's financial activities and financial position.

The *Government-wide Financial Statements* provide a long-term view of the City's activities as a whole. *The Statement of Net Assets* provides information about financial position, including capital assets and long-term liabilities on the full accrual basis, similar to that used by commercial enterprises. *The Statement of Activities* provides information about the City's revenues and expenses, also on the full accrual basis, with the emphasis on measuring the net revenues or expenses of City programs. Information is presented both in total and separately for governmental activities, which are generally tax and grant supported and business-type activities which are typically supported by user fees.

The *Fund Financial Statements* report the City's operations in more detail than the government-wide statements. The focus is on the individual funds that are used to report the status of restricted or otherwise segregated resources and to demonstrate compliance with finance-related legal requirements. The governmental funds focus primarily on short-term activities by measuring current revenues and expenditures and excluding capital assets and long-term obligations.

The *Proprietary Fund Financial Statements* report the same functions presented as business-type activities in the Government-wide Financial Statements. The City maintains four proprietary funds, all of which are reported as enterprise fund type. The City uses enterprise funds to account for Water, Garbage, Golf Course and Housing activities. The Water Fund, Garbage Fund, and Housing Fund are major funds and the Golf Course Fund is a non-major fund.

FINANCIAL HIGHLIGHTS

The City provides services to the citizens of Napa by leveraging property, sales, and other taxes with user fees and federal, state, and local grants to finance its operations. The City's sales and transient occupancy tax revenues increased in fiscal 2011 as tourism activity continued to rebound.

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The governmental and business-type activities net assets increased by \$13 million and \$6.2 million respectively. The City's governmental unrestricted balance increased by \$11.6 million during the year, while the governmental restricted balance available for capital projects and housing decreased by \$4.5 million.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The total net assets of the City as of June 30, 2010 and 2011 are summarized in Table 1 below and are followed by a discussion of the balances by category.

Government-wide Net Assets

Table 1

Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Assets:						
Cash and investments	\$ 70,337,526	\$ 70,310,418	\$ 48,932,634	\$ 41,448,766	\$ 119,270,160	\$ 111,759,184
Receivables, other current assets	30,825,308	33,349,253	12,641,283	17,005,180	43,466,591	50,354,433
Capital assets	354,027,552	357,021,623	129,969,033	133,951,414	483,996,585	490,973,037
Total assets	455,190,386	460,681,294	191,542,950	192,405,360	646,733,336	653,086,654
Liabilities:						
Long-term debt	34,293,245	26,815,728	82,284,445	79,395,602	116,577,690	106,211,330
Other liabilities	12,841,355	12,804,616	7,874,768	5,474,484	20,716,123	18,279,100
Total liabilities	47,134,600	39,620,344	90,159,213	84,870,086	137,293,813	124,490,430
Net assets:						
Invested in capital assets, net of debt	332,284,678	338,197,835	70,796,946	60,887,473	403,081,624	399,085,308
Restricted	38,112,718	33,576,180	1,186,678		39,299,396	33,576,180
Unrestricted	37,658,390	49,286,935	29,400,112	46,647,801	67,058,502	95,934,736
Total net assets	\$ 408,055,786	\$ 421,060,950	\$ 101,383,736	\$ 107,535,274	\$ 509,439,522	\$ 528,596,224

Cash and investments - The City's cash and investment portfolio decreased by \$7.5 million to \$111.8 million during the year due primarily to decreased cash and investments in Business-type activities, related to the construction of a new water treatment plant in the water enterprise fund. The cash balance comprises \$14 million held by the Trustees, \$64.2 million held for governmental programs or designated for other budgetary commitments and \$33.6 million held for enterprise operations.

Receivables and other current assets - The City's other current assets increased by \$6.9 million to \$50.4 million.

Capital assets - The City's capital assets increased in governmental activities by \$3.0 million during the year. The increase is primarily due to construction in progress and new assets related to street projects. The City's business-type capital assets increased by \$4.0 million during the year, primarily due to the construction in progress on a new water treatment plant.

Long-term debt - The long-term debt of \$106.2 million includes the City's four major revenue bonds issued for water, housing, and redevelopment programs, as well as other various smaller notes and leases. The long term debt balance decreased by \$9.1 million due primarily to a significant reduction in compensated absences, the early payoff of the landbanking loan, as well as the reduction of long term debt in governmental activities, the absence of new debt issues in the current year and timely payment on outstanding issues.

Net assets - The City's total net assets increased by 19.2 million during the fiscal year, to \$528.6 million. The governmental net asset balance of \$421 million includes \$338.2 million invested in capital assets net of related debt, \$33.6 million restricted funds available for capital projects and housing programs, and a remaining balance of \$49.3 million available for future needs. The change in balances is due primarily to a combination of increased revenues as the recovery from the recession continues and decreased expenditures from programmatic and staff reductions.

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Government-wide Activities

The changes in the City's government-wide net assets as of June 30, 2011 result from its activities during the fiscal year. The City's government-wide activities for the current and prior fiscal years are summarized in Table 2 below.

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Revenues:						
Program revenues:						
Charges for services	\$ 10,052,392	\$ 10,494,404	\$ 43,928,692	\$ 49,267,770	\$ 53,981,084	\$ 59,762,174
Operating grants and contributions	4,826,983	4,776,296	10,376,212	11,611,173	15,203,195	16,387,469
Capital grants and contributions	13,005,533	9,322,450	334,125	322,355	13,339,658	9,644,805
General revenues:						
Property, sales, and other taxes	51,029,943	57,435,343			51,029,943	57,435,343
Other	4,098,560	4,299,078	717,464	840,949	4,816,024	5,140,027
Total revenues	83,013,411	86,327,571	55,356,493	62,042,247	138,369,904	148,369,818
Expenses:						
Governmental						
General government	20,261,017	16,605,269			20,261,017	16,605,269
Public safety	34,152,460	29,080,513			34,152,460	29,080,513
Public works	20,184,526	20,431,098			20,184,526	20,431,098
Park and recreation	8,568,547	7,241,395			8,568,547	7,241,395
Community						
Development	237,987	1,119,365			237,987	1,119,365
Redevelopment	1,417,676	1,363,123			1,417,676	1,363,123
Interest on long term debt	1,057,795	985,500			1,057,795	985,500
Business-type activities:						
Water			21,422,732	19,493,733	21,422,732	19,493,733
Garbage			19,776,102	19,747,192	19,776,102	19,747,192
Golf course			1,768,257	1,778,218	1,768,257	1,778,218
Housing			11,187,109	11,367,711	11,187,109	11,367,711
Total expenses	85,880,008	76,826,263	54,154,200	52,386,854	140,034,208	129,213,117
Excess before transfers	(2,866,597)	9,501,308	1,202,293	9,655,393	(1,664,304)	19,156,701
Transfers	2,728,974	3,503,856	(2,728,974)	(3,503,856)		
Changes in net assets	\$ (137,623)	\$ 13,005,164	\$ (1,526,681)	\$ 6,151,537	\$ (1,664,304)	\$ 19,156,701

The City's net assets increased by \$19.2 million during the year, as measured on the accrual basis of accounting. Governmental revenues increased 4% (\$3.3 million) primarily due to a \$6.4 million increase in property, sales and other taxes, an increase in charges for services of \$.4 million and a decrease in capital grants and contributions of \$3.7 million. Governmental expenses decreased from the prior fiscal year by \$9.1 million to \$76.8 million due to decreased general government expenditures related to departmental reductions and reorganizations, and negotiated labor concessions. The business-type revenues increased by \$6.7 million to \$62.0 million while expenses decreased by \$1.8 million to \$52.4 million. After transfers, the change in business-type net assets amounted to \$6.2 million.

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

In addition to the accrual-basis government-wide statements described above, the City also maintains financial records at the fund level for budgetary control. Individual funds are generally established to track the resources and operating results for specific, restricted programs. The results for governmental funds below differ from the results reported above in the government-wide statements since the focus here is on current, available resources. The following are financial highlights from the City's most significant funds:

Governmental Funds

General Fund - The City's General Fund realized \$59.7 million of revenues, an increase of \$4.2 million from the previous year. Of this amount, \$3.9 million was an increase in taxes (property, sales, transient occupancy taxes), \$0.4 million increase in intergovernmental, and \$0.1 million increase each in licenses, permits and fees and investment income. These increases were partially offset by a \$0.3 million decrease in charges for services.

The City's Property Tax revenues continued to decline; however, the City realized an increase in overall property tax revenues due to one-time Excess-Excess ERAF funds of \$3.4 million. General Fund expenditures amounted to \$60.2 million, which was a decrease of \$2.8 million from the prior year. Public Safety saw the largest decrease in expenditures amounting to \$1.5 million due to a significant number of vacant positions throughout the year.

Development Fees Fund - The sources of revenue for this fund are the various development impact fees collected from developers which are used for the installation or expansion of related infrastructure and affordable housing. Current year revenues were \$1.9 million, an increase of \$0.6 million from the prior year caused primarily by the increase in development over the prior year, signaling initial economic recovery. During the fiscal year, the fund contributed \$2.2 million to the City's Capital Projects Fund through transfers.

City Capital Projects Fund - The City's capital program saw a decline in expenditures of nearly 16% due to the completion of two major street projects and reduced grant funding for capital projects. In total, \$11.6 million in capital outlay was expended during the current year. All resources in this fund are designated for specific capital improvement programs.

Enterprise Funds

Water Utility Fund - This fund is a fully self-supported enterprise providing water service to the City and adjacent areas. Charges for water and connection fees have consistently been set appropriately to cover both operating and planned maintenance, replacement and expansion costs. The fund issued bonds in 2007 to expand Jamieson Canyon Treatment Facility and construction began in 2008. Fund equity includes reserves for rate stabilization and drought response (\$2 million and \$2.8 million, respectively,) as well as capital improvement, renewal and replacement.

Materials Diversion Fund - The garbage fund is also a fully self-supported enterprise which provides for local solid waste operations and operation of the materials diversion facility. Of the fund's \$19.5 million in operating expenses, \$2.4 million was for tipping fees. Fund equity includes reserves for rate stabilization (\$0.8 million) and capital replacement (\$0.7 million).

Golf Course Fund - The City's Golf Course is located at Kennedy Park. Fiscal year 2010-11, due in large part to inclement weather and a slow rebound from the general economic downturn, continued to see fewer rounds of golf played, and a corresponding drop in ending net assets from -\$0.28 million to -\$0.56 million.

Housing (Enterprise) Fund - The Housing Authority funds saw an increase in ending net assets of \$5.4 million due to reduction in allowance for doubtful accounts= adjustments to the loan program predicated by GASB 34.

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS

As of June 30, 2011, the City had invested \$491 million in capital assets, net of accumulated depreciation; an increase of 1.4% from the prior year. The \$7 million increase is the net result of an increase of \$22.0 million in capital assets not subject to depreciation (most notably construction in progress of the city's new water treatment plant, as well as over 50 other projects including East Avenue Rehabilitation project, Main Street Improvements (Clinton to Lincoln), buildings, streets, sidewalks, bridges, and parks projects), offset by \$15 million in depreciation of the city's other capital assets. A summary of the City's capital assets net of depreciation at June 30, 2010 and 2011 is presented in Table 3.

**Table 3
Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Capital assets not subject to depreciation:						
Land	\$ 22,986,863	\$ 24,503,141	\$ 5,506,614	\$ 5,506,614	\$ 28,493,477	\$ 30,009,755
Construction in progress	73,057,092	86,118,810	39,178,368	46,544,833	112,235,460	132,663,643
Other capital assets:						
Building and improvements	12,368,223	11,767,872	21,477,029	20,452,402	33,845,252	32,220,274
Equipment	525,153	545,642	3,108,210	2,931,060	3,633,363	3,476,702
Vehicles and rentals	5,530,094	5,724,045			5,530,094	5,724,045
Infrastructure:						
Transmission and distribution systems			60,698,812	58,516,505	60,698,812	58,516,505
Bridges	19,433,241	19,059,019			19,433,241	19,059,019
Roads	202,952,629	192,728,556			202,952,629	192,728,556
Curb/gutter/sidewalks	4,824,435	4,690,145			4,824,435	4,690,145
Traffic signals	3,716,942	3,610,403			3,716,942	3,610,403
Stormwater	4,122,626	4,016,463			4,122,626	4,016,463
Park improvements	3,146,147	2,930,231			3,146,147	2,930,231
Underground utilities	60,148	58,529			60,148	58,529
Street Lights	1,303,959	1,268,767			1,303,959	1,268,767
Total Capital Assets	\$ 354,027,552	\$ 357,021,623	\$ 129,969,033	\$ 133,951,414	\$ 483,996,585	\$ 490,973,037

DEBT ADMINISTRATION

The City uses a variety of indebtedness to finance various capital acquisitions and improvements. At June 30, 2011, the City's long-term debt outstanding was \$98.3 million. The following table provides a schedule of the City's long-term debt obligations at June 30, 2010 and 2011.

**Table 4
Long Term Debt**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Redevelopment tax allocation bonds	\$ 20,635,000	\$ 19,020,000			\$ 20,635,000	\$ 19,020,000
Water revenue bonds			\$ 48,514,412	\$ 47,417,837	48,514,412	47,417,837
Garbage revenue bonds			4,776,437	4,388,552	4,776,437	4,388,552
Notes payable	1,246,000		6,904,817	6,535,108	8,150,817	6,535,108
Capital lease obligations	328,846	218,874	21,302,114	20,700,108	21,630,960	20,918,982
Total Long Term Debt	\$ 22,209,846	\$ 19,238,874	\$ 81,497,780	\$ 79,041,605	\$ 103,707,626	\$ 98,280,479

**CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The City of Napa was founded in 1847. For the past 30 to 40 years, the City of Napa has been in transition. The City that was once known for its tanneries, prune processing and State hospital is now more known for its hospitality, fine food, and luxury hotels. While yesterday's jobs came largely in heavy industrial pursuits at Kaiser Steel, Basalt Rock, Napa Pipe and Mare Island Shipyard, today's workforce is mostly white collar and the economy is increasingly based on tourism. The City of Napa has a population of 76,915 and accounts for 54 percent of the population and jobs within Napa County. The median household income within the City of Napa is \$65,309. During the 2010-11 fiscal year, the City began to feel the impact of the slow recovery to the national economic downturn. The City experienced slow growth in Property and Sales tax, with a more significant rebound of almost 20% in Transient Occupancy Taxes.

While the effects of the economic downturn will most likely continue to be felt for the next several years, indications are that the City of Napa will continue to see a slow but steady economic recovery. Recent projections show increases in the City's major sources of revenue over the next several years. While the economic climate within the City of Napa is projected to continue a slow but steady recovery, the fiscal uncertainty at the State level is cause for concern as the State considers various options for balancing its budget shortfall. The City of Napa continues to explore alternatives for cost reduction and improvement of operational efficiency. Numerous cost saving measures have been implemented and additional cost reduction opportunities are under consideration. Increases in healthcare and retirement costs for the City's workforce continue to present a financial challenge. The City's programs with dedicated or restricted revenue sources remain in full operation. The City of Napa Redevelopment Agency, along with all of the Redevelopment Agencies across the state will be dissolved in FY 2011-12; however, the Housing Authority continues to invest in the community. The economic outlook for the City of Napa is positive and will be closely monitored to ensure that the City retains its position of fiscal stability.

CONTACTING THE CITY

These *Basic Financial Statements* are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department at 955 School Street, Napa, California. The mailing address is Post Office Box 660, Napa, California, 94559-0660.

CITY OF NAPA

**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

CITY OF NAPA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$64,213,927	\$33,569,840	\$97,783,767
Restricted cash and investments (Note 3)	6,096,491	7,878,926	13,975,417
Receivables			
Accounts	4,324,361	5,835,845	10,160,206
Federal, state and other governments	16,587,094	1,055,039	17,642,133
Interest receivable	260,485	154,538	415,023
Loans receivable (Note 5)	10,251,596	10,658,919	20,910,515
Land held for redevelopment (Note 6)	125,691		125,691
Internal balances (Note 4)	781,638	(781,638)	
Other assets	1,018,388	82,477	1,100,865
Capital assets (Note 7):			
Nondepreciable	110,621,951	52,051,447	162,673,398
Depreciable	246,399,672	81,899,967	328,299,639
Total Assets	460,681,294	192,405,360	653,086,654
LIABILITIES			
Accounts payable and accrued liabilities	3,129,869	4,276,117	7,405,986
Interest payable	281,513	523,655	805,168
Deposits payable	5,962,000	674,712	6,636,712
Unearned revenue	2,393,678		2,393,678
Net OPEB Obligation (Note 13)	1,037,556		1,037,556
Compensated absences (Note 11):			
Due within one year	45,590	78,634	124,224
Due in more than one year	2,322,264	275,363	2,597,627
Claims payable (Note 14):			
Due within one year	1,617,000		1,617,000
Due in more than one year	3,592,000		3,592,000
Long-term debt (Note 9):			
Due within one year	1,788,709	2,535,537	4,324,246
Due in more than one year	17,450,165	76,506,068	93,956,233
Total Liabilities	39,620,344	84,870,086	124,490,430
NET ASSETS (Note 11):			
Invested in capital assets, net of related debt	338,197,835	60,887,473	399,085,308
Restricted for:			
Capital projects	28,135,317		28,135,317
Housing grant programs	5,440,863	1,822,730	7,263,593
Unrestricted	49,286,935	44,825,071	94,112,006
Total Net Assets	\$421,060,950	\$107,535,274	\$528,596,224

See accompanying notes to financial statements

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$16,605,269	\$2,949,108	\$1,311,648		(\$12,344,513)		(\$12,344,513)
Public safety	29,080,513	4,076,467	909,696	\$19,542	(24,074,808)		(24,074,808)
Public works	20,431,098	1,952,766	1,304,842	9,251,147	(7,922,343)		(7,922,343)
Parks and recreation	7,241,395	1,470,402	335,260	12,000	(5,423,733)		(5,423,733)
Community Development	1,119,365	26,054	914,850	39,761	(138,700)		(138,700)
Redevelopment	1,363,123	19,607			(1,343,516)		(1,343,516)
Interest on long-term debt	985,500				(985,500)		(985,500)
Total Governmental Activities	76,826,263	10,494,404	4,776,296	9,322,450	(52,233,113)		(52,233,113)
Business-type Activities:							
Water Utility	19,493,733	19,422,077	19,571	322,355		\$270,270	270,270
Garbage	19,747,192	23,285,181				3,537,989	3,537,989
Golf Course	1,778,218	1,393,806	70,000			(314,412)	(314,412)
Housing	11,367,711	5,166,706	11,521,602			5,320,597	5,320,597
Total Business-type Activities	52,386,854	49,267,770	11,611,173	322,355		8,814,444	8,814,444
Total	\$129,213,117	\$59,762,174	\$16,387,469	\$9,644,805	(52,233,113)	8,814,444	(43,418,669)
General revenues:							
Taxes							
Property					27,451,844		27,451,844
Redevelopment tax increment					6,234,788		6,234,788
Franchises					1,684,730		1,684,730
Sales taxes					12,191,996		12,191,996
Transient occupancy					9,871,985		9,871,985
Motor vehicle license fees					358,400		358,400
Business license					2,572,293		2,572,293
Investment earnings					1,368,385	840,949	2,209,334
Transfers (Note 4A)					3,503,856	(3,503,856)	
Total general revenues and transfers					65,238,277	(2,662,907)	62,575,370
Change in Net Assets					13,005,164	6,151,537	19,156,701
Net Assets-Beginning					408,055,786	101,383,737	509,439,523
Net Assets-Ending					\$421,060,950	\$107,535,274	\$528,596,224

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

In the Fund Financial Statements only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2011. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

DEVELOPMENT FEES SPECIAL REVENUE FUND

The Development Fees Special Revenue Fund accounts for development fees levied by the City on new construction. City ordinance restricts these revenues for use in construction, major maintenance, and debt service for park, street, drainage, and public safety facilities.

HOME PROGRAM

The City has been awarded grants under the State of California Federal Home Investment Partnership Program (HOME) for administration of the following activities: ownership rehabilitation, rental rehabilitation augmenting the Community Development Block Grant Rehabilitation Program, a silent second down payment assistance program; and a rental assistance program.

CITY CAPITAL PROJECTS FUND

The City Capital Projects Fund accounts for the City's current construction projects, including streets, park and recreation facilities, and other major city projects. The primary sources of funds include city-levied development fees, the state gas tax, and federal and state grants.

CITY OF NAPA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 3)	\$11,543,746	\$17,484,291	\$135,227	\$7,833,282	\$17,949,995	\$54,946,541
Restricted cash and investments (Note 3)					6,096,491	6,096,491
Receivables, net:						
Accounts	2,692,302	961,088	530	485,474	122,341	4,261,735
Federal, state and other governments	5,255,407			9,501,833	924,094	15,681,334
Interest receivable	65,570	68,475			90,193	224,238
Loans receivable (Note 5)			7,239,046		3,012,550	10,251,596
Due from other funds (Note 4)	4,871,832					4,871,832
Prepaid items	26,294				126	26,420
Advances to other funds (Note 4)	482,850	214,200		675,000		1,372,050
Land held for redevelopment (Note 6)					125,691	125,691
Total Assets	<u>\$24,938,001</u>	<u>\$18,728,054</u>	<u>\$7,374,803</u>	<u>\$18,495,589</u>	<u>\$28,321,481</u>	<u>\$97,857,928</u>
LIABILITIES						
Accounts payable and accrued liabilities	\$2,224,809		\$453	\$177,661	\$369,796	\$2,772,719
Vacation and sick leave accrual (Note 11)	27,842				3,868	31,710
Deposits payable	824,057			564,041	4,573,902	5,962,000
Due to other funds (Note 4)					4,215,088	4,215,088
Deferred revenue	3,659,973	\$961,088	7,239,046	9,817,084	3,130,203	24,807,394
Advances from other funds (Note 4)					789,724	789,724
Total Liabilities	<u>6,736,681</u>	<u>961,088</u>	<u>7,239,499</u>	<u>10,558,786</u>	<u>13,082,581</u>	<u>38,578,635</u>
FUND BALANCES (Note 11)						
Nonspendable	482,850			675,000		1,157,850
Restricted	37,930	278,719	135,304	270,173	9,066,121	9,788,247
Committed	2,290,145	17,488,247		4,361,980	11,044,604	35,184,976
Assigned	11,048,127			2,629,650	254,822	13,932,599
Unassigned	4,342,268				(5,126,647)	(784,379)
Total Fund Balances	<u>18,201,320</u>	<u>17,766,966</u>	<u>135,304</u>	<u>7,936,803</u>	<u>15,238,900</u>	<u>59,279,293</u>
Total Liabilities and Fund Balances	<u>\$24,938,001</u>	<u>\$18,728,054</u>	<u>\$7,374,803</u>	<u>\$18,495,589</u>	<u>\$28,321,481</u>	<u>\$97,857,928</u>

See accompanying notes to financial statements

CITY OF NAPA
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

Fund balances, as reported on the Governmental Funds Balance Sheet		\$59,279,293
<p>Amounts reported for Governmental Activities on the Statement of Net Assets are different from those reported on the Governmental Funds Balance sheet because of the following:</p>		
<p>Capital assets:</p>		
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.		350,153,939
<p>Non-current revenues:</p>		
Revenues which are deferred on the Governmental Fund Balance Sheets because they are not currently available are taken into revenue on the Statement of Activities.		
Affordable housing loans		22,438,430
<p>Internal Service Fund net assets:</p>		
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain centralized activities, such as insurance, stores, and vehicle maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included as Governmental Activities on the Statement of Net Assets.		10,376,658
<p>Long-term liabilities and related accounts:</p>		
The liabilities below are not due and payable in the current period and therefore are not reported on the Governmental Funds Balance Sheet:		
Long-term debt	(19,020,000)	
Interest payable	(281,513)	
Compensated absences	(2,300,943)	
Unamortized costs of bond issuance have been capitalized on the statement of net assets	415,086	
		(21,187,370)
Net assets of Governmental Activities, as reported on the Statement of Net Assets		\$421,060,950

See accompanying notes to financial statements

CITY OF NAPA
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2011

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$37,079,110				\$6,638,332	\$43,717,442
Licenses, permits and fees	3,618,092					3,618,092
Intergovernmental	13,851,243		\$306,848	\$7,205,063	3,187,071	24,550,225
Charges for services	4,605,804	\$1,411,189	118,452	235,879	2,925,880	9,297,204
Investment income	328,727	369,021	3,373		301,807	1,002,928
Miscellaneous revenues	205,630	147,443		16,601	95,972	465,646
Total Revenues	59,688,606	1,927,653	428,673	7,457,543	13,149,062	82,651,537
EXPENDITURES						
Current:						
General government	14,114,162	19,146			2,454,357	16,587,665
Public safety	32,700,444				567,619	33,268,063
Public works	6,645,000				107,328	6,752,328
Parks and recreation	6,603,064	12,026			197,653	6,812,743
Community development Redevelopment			391,591		974,317	391,591 974,317
County fees and pass-through					116,331	116,331
Capital outlay	136,986	367,390		11,567,902	3,590,814	15,663,092
Debt service:						
Principal					3,365,000	3,365,000
Interest and fiscal charges					1,215,617	1,215,617
Total Expenditures	60,199,656	398,562	391,591	11,567,902	12,589,036	85,146,747
Excess (Deficiency) of Revenues over (under) Expenditures	(511,050)	1,529,091	37,082	(4,110,359)	560,026	(2,495,210)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4A)	5,574,089	5,177		9,092,758	16,255,464	30,927,488
Transfers (out) (Note 4A)	(733,237)	(2,218,932)	(17,196)	(2,409,250)	(21,805,892)	(27,184,507)
Total Other Financing Sources (Uses)	4,840,852	(2,213,755)	(17,196)	6,683,508	(5,550,428)	3,742,981
Net Change in Fund Balances	4,329,802	(684,664)	19,886	2,573,149	(4,990,402)	1,247,771
Beginning Fund Balances	13,871,518	18,451,630	115,418	5,363,654	20,229,302	58,031,522
Ending Fund Balances	\$18,201,320	\$17,766,966	\$135,304	\$7,936,803	\$15,238,900	\$59,279,293

See accompanying notes to financial statements

CITY OF NAPA
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance \$1,247,771

Amounts reported for Governmental Activities on the Statement of Activities are different from those reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance because of the following:

Capital asset transactions:

Governmental Funds report capital outlays as expenditures. However, on the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures are added back to fund balance	15,663,092	
Non capitalized capital outlay expenditures are deducted back from fund balance	(2,932,967)	
Capital contributions are added back to fund balance	1,973,778	
Net retirements are deducted from fund balance	(762,871)	
Depreciation expense is deducted from fund balance (Depreciation expense is net of internal service fund depreciation of \$885,323 which has already been allocated to serviced funds)	<u>(11,994,457)</u>	
		1,946,575

Non-current revenues:

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	1,525,905
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Internal service fund activities:

Internal Service Funds are used by management to allocate the costs of certain centralized activities, such as self-insurance, central stores, and vehicle maintenance, to individual funds and programs. Because these funds serve mostly governmental activities, their net revenue (expense) is reported with governmental activities on the Statement of Activities.

	507,931
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Long-term debt transactions:

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities on the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but on the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	2,875,579	
Net, reduction in vacation and sick leave payable	4,946,444	
Amortization of bond discount and costs	(66,465)	
Reduction in interest payable, net	<u>21,424</u>	
		<u>7,776,982</u>

Change in Net Assets of Governmental Activities, as reported on the Statement of Activities \$13,005,164

See accompanying notes to financial statements

CITY OF NAPA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Fund Balance			\$13,871,518	
Revenues:				
Taxes:	\$36,734,346	\$34,158,218	37,079,110	\$2,920,892
Licenses, permits and fees	4,864,075	3,912,601	3,618,092	(294,509)
Intergovernmental revenues	14,299,787	13,810,379	13,851,243	40,864
Charges for services	4,667,763	5,690,975	4,605,804	(1,085,171)
Interest on investments	750,000	250,000	328,727	78,727
Miscellaneous revenues	144,762	161,644	205,630	43,986
Total Revenues	61,460,733	57,983,817	59,688,606	1,704,789
Expenditures:				
Current:				
General government	16,009,973	17,930,343	14,114,162	3,816,181
Public safety	35,761,126	35,313,532	32,700,444	2,613,088
Public works	7,517,778	7,435,684	6,645,000	790,684
Parks and recreation	7,992,257	7,065,727	6,603,064	462,663
Capital outlay	98,030	390,955	136,986	253,969
Total Expenditures	67,379,164	68,136,241	60,199,656	7,936,585
Other Financing Sources (Uses):				
Transfers in	3,640,405	5,574,288	5,574,089	(199)
Transfers (out)	(914,282)	(728,060)	(733,237)	(5,177)
Total Other Financing Sources (Uses)	2,726,123	4,846,228	4,840,852	(5,376)
Net Change in Fund Balances	(\$3,192,308)	(\$5,306,196)	4,329,802	\$9,635,998
Ending Fund Balance			\$18,201,320	

See accompanying notes to financial statements

CITY OF NAPA
DEVELOPMENT FEES FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Fund Balance, as restated (Note 11F)			<u>\$18,451,630</u>	
Revenues:				
Charges for services	\$114,600	\$504,446	1,411,189	\$906,743
Investment income	461,800	461,800	369,021	(92,779)
Miscellaneous		139,846	147,443	7,597
Total Revenues	<u>576,400</u>	<u>1,106,092</u>	<u>1,927,653</u>	<u>821,561</u>
Expenditures:				
Current				
General government			19,146	(19,146)
Parks and recreation	40,000	40,000	12,026	27,974
Capital outlay		390,000	367,390	22,610
Debt service				
Principal		389,846		389,846
Total Expenditures	<u>40,000</u>	<u>819,846</u>	<u>398,562</u>	<u>421,284</u>
Other Financing Sources (Uses):				
Transfers in	250,000	322,412	5,177	(317,235)
Transfers (out)	(290,000)	(3,431,421)	(2,218,932)	1,212,489
Total Other Financing Sources (Uses)	<u>(40,000)</u>	<u>(3,109,009)</u>	<u>(2,213,755)</u>	<u>895,254</u>
Net Change in Fund Balances	<u>\$496,400</u>	<u>(\$2,822,763)</u>	<u>(684,664)</u>	<u>\$1,295,531</u>
Ending Fund Balance (Deficit)			<u>\$17,766,966</u>	

See accompanying notes to financial statements

CITY OF NAPA
HOME PROGRAM SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Fund Balance			<u>\$115,418</u>	
Revenues:				
Investment income			3,373	\$3,373
Intergovernmental revenues		\$565,061	306,848	(258,213)
Charges for services	\$155,817	116,217	118,452	2,235
Total Revenues	<u>155,817</u>	<u>681,278</u>	<u>428,673</u>	<u>(252,605)</u>
Expenditures:				
Current:				
Community development	138,813	664,274	391,591	272,683
Total Expenditures	<u>138,813</u>	<u>664,274</u>	<u>391,591</u>	<u>272,683</u>
Other Financing Sources (Uses):				
Transfers (out)	(17,196)	(17,196)	(17,196)	
Total Other Financing Sources (Uses)	<u>(17,196)</u>	<u>(17,196)</u>	<u>(17,196)</u>	
Net Change in Fund Balances	<u>(\$192)</u>	<u>(\$192)</u>	19,886	<u>(\$525,288)</u>
Ending Fund Balance (Deficit)			<u>\$135,304</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

WATER UTILITY FUND:

The Water Utility Fund supports the operation, maintenance and improvement of the municipal water system serving the City and adjacent areas. The City provides an uninterrupted supply of high-quality and low-cost water to the community for consumption and fire protection.

MATERIALS DIVERSION UTILITY FUND

The Materials Diversion Utility Fund is responsible for the collection, processing, public education and long-term planning related to solid waste materials generated in the City of Napa.

GOLF COURSE FUND

The Golf Course Fund supports the management and maintenance of the City-owned, 18-hole golf Course at Kennedy Park in south Napa.

HOUSING FUND

The Housing Fund accounts for activities of the Housing Authority which provides and administers affordable housing programs and services to qualified residents. The Housing Authority administers Federal funds including Section 8 Housing Vouchers county wide; Mainstream Vouchers county-wide; Mod Rehab project based rental assistance; Continuum of Care Funds; the 20% Housing Set-Aside from the Redevelopment Agency; the Local Housing Fund; the Operating Reserve Fund and the Management of Housing Authority owned properties.

CITY OF NAPA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
ASSETS						
Current Assets:						
Cash and investments (Note 3)	\$17,638,570	\$8,941,866		\$6,989,404	\$33,569,840	\$9,267,386
Receivables, net:						
Accounts	3,262,441	2,516,013	\$2	57,389	5,835,845	62,626
Federal, state and other governments	934,062	79,578		41,399	1,055,039	905,760
Due from other funds (Note 4)				21,718	21,718	
Interest receivable	69,260	51,494	(994)	34,778	154,538	36,247
Prepaid items			10,904		10,904	140,426
Inventory (Note 1G)			71,573		71,573	436,456
Total Current Assets	21,904,333	11,588,951	81,485	7,144,688	40,719,457	10,848,901
Noncurrent Assets:						
Restricted cash and investments (Note 3)	3,602,213	2,375,451		1,901,262	7,878,926	
Advance to other funds (Note 4)	789,724				789,724	
Loans receivable (Note 5)	353,500			10,305,419	10,658,919	
Capital assets (Note 7):						
Nondepreciable	45,758,636	4,095,840	420,560	1,776,411	52,051,447	968,294
Depreciable, net	73,808,535	5,707,328	792,993	1,591,111	81,899,967	5,899,390
Total Noncurrent Assets	124,312,608	12,178,619	1,213,553	15,574,203	153,278,983	6,867,684
TOTAL ASSETS	146,216,941	23,767,570	1,295,038	22,718,891	193,998,440	17,716,585
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	2,593,130	1,488,760	115,193	79,034	4,276,117	357,150
Compensated absences (Note 11)	78,634				78,634	13,880
Claims payable (Note 14)						1,617,000
Accrued interest	415,555	106,215		1,885	523,655	
Deposits payable	331,414	217,351	44,775	37,378	630,918	
Deferred revenue						24,714
Due to other funds (Note 4)			220,234	796	221,030	457,432
Long-term debt (Note 9):						
Revenue bonds	1,095,000	430,000			1,525,000	
Notes payable	341,561			39,407	380,968	
Capital lease obligations	581,528		48,041		629,569	58,709
Total Current Liabilities	5,436,822	2,242,326	428,243	158,500	8,265,891	2,528,885
Long-term Liabilities:						
Compensated absences (Note 11)	249,469	25,894			275,363	21,321
Deposits payable				43,794	43,794	
Claims payable (Note 14)						3,592,000
Advances from other funds (Note 4)			1,372,050		1,372,050	
Net OPEB Obligation (Note 13)						1,037,556
Long-term debt (Note 9):						
Revenue bonds, net of unamortized issuance costs and discounts	46,322,837	3,958,552			50,281,389	
Notes payable	5,217,389			936,751	6,154,140	
Capital lease obligations	20,015,133		55,406		20,070,539	160,165
Total Long-term Liabilities	71,804,828	3,984,446	1,427,456	980,545	78,197,275	4,811,042
TOTAL LIABILITIES	77,241,650	6,226,772	1,855,699	1,139,045	86,463,166	7,339,927
NET ASSETS (NOTE 11):						
Invested in capital assets, net of related debt	49,595,936	7,790,067	1,110,106	2,391,364	60,887,473	6,648,810
Restricted				1,822,730	1,822,730	
Unrestricted	19,379,355	9,750,731	(1,670,767)	17,365,752	44,825,071	3,727,848
Total net assets (deficit)	\$68,975,291	\$17,540,798	(\$560,661)	\$21,579,846	\$107,535,274	\$10,376,658

See accompanying notes to financial statements

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

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
OPERATING REVENUES						
Charges for services	\$19,211,307	\$23,132,561	\$1,393,806	\$5,166,706	\$48,904,380	\$8,991,734
Miscellaneous	210,770	152,620			363,390	
Total Operating Revenues	19,422,077	23,285,181	1,393,806	5,166,706	49,267,770	8,991,734
OPERATING EXPENSES						
Cost of goods sold			179,907		179,907	451,489
Housing assistance				9,541,253	9,541,253	
General administrative				593,219	593,219	
Employee services and benefits	4,929,615	654,181		927,268	6,511,064	2,515,653
Materials and services	9,092,422	18,516,399	1,436,364	187,464	29,232,649	3,594,740
Insurance premiums				12,725	12,725	988,403
Depreciation	3,111,450	292,779	161,947	65,082	3,631,258	885,323
Total Operating Expenses	17,133,487	19,463,359	1,778,218	11,327,011	49,702,075	8,435,608
Operating Income (Loss)	2,288,590	3,821,822	(384,412)	(6,160,305)	(434,305)	556,126
NONOPERATING REVENUES (EXPENSES)						
Investment income	393,555	263,058	(6,170)	190,506	840,949	190,930
Grants from other governments	19,571		70,000	11,521,602	11,611,173	
Interest expense and fiscal charges	(2,360,246)	(283,833)		(40,700)	(2,684,779)	
Total Nonoperating Revenues (Expenses)	(1,947,120)	(20,775)	63,830	11,671,408	9,767,343	190,930
Income (Loss) Before Transfers	341,470	3,801,047	(320,582)	5,511,103	9,333,038	747,056
Connection fees and capital grants	322,355				322,355	
Transfers in (Note 4A)			70,000	1,900,767	1,970,767	979,782
Transfers out (Note 4A)	(1,897,826)	(1,505,827)	(31,045)	(2,039,925)	(5,474,623)	(1,218,907)
Change in Net Assets	(1,234,001)	2,295,220	(281,627)	5,371,945	6,151,537	507,931
Beginning Net Assets	70,209,292	15,245,578	(279,034)	16,207,901	101,383,737	9,868,727
Ending Net Assets (Deficit)	\$68,975,291	\$17,540,798	(\$560,661)	\$21,579,846	\$107,535,274	\$10,376,658

See accompanying notes to financial statements

CITY OF NAPA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$19,144,986	\$22,387,507	\$1,391,586	\$5,184,808	\$48,108,887	\$8,476,251
Payments to suppliers	(9,717,939)	(19,444,424)	(1,602,520)	(10,455,132)	(41,220,015)	(3,619,496)
Payments for loans				(4,154,582)	(4,154,582)	
Payments to or on behalf of employees	(5,364,061)	(652,403)		(927,268)	(6,943,732)	(3,711,601)
Cash Flows from Operating Activities	<u>4,062,986</u>	<u>2,290,680</u>	<u>(210,934)</u>	<u>(10,352,174)</u>	<u>(4,209,442)</u>	<u>1,145,154</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating grants received	19,571		70,000	11,555,608	11,645,179	134
Interfund payments						
Interfund receipts			153,807	5,053	158,860	97,883
Transfers in			70,000	1,900,767	1,970,767	979,782
Transfers (out)	(1,897,826)	(1,505,827)	(31,045)	(2,039,925)	(5,474,623)	(1,218,907)
Cash Flows from Noncapital Financing Activities	<u>(1,878,255)</u>	<u>(1,505,827)</u>	<u>262,762</u>	<u>11,421,503</u>	<u>8,300,183</u>	<u>(141,108)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Connection fees and capital grants	322,355				322,355	
Acquisition of capital assets	(6,630,811)	(978,828)		(4,000)	(7,613,639)	(2,042,791)
Principal payments on capital debt	(1,984,224)	(387,884)	(46,652)	(37,415)	(2,456,175)	
Interest paid	(2,370,014)	(292,477)		(38,815)	(2,701,306)	
Cash Flows from Capital and Related Financing Activities	<u>(10,662,694)</u>	<u>(1,659,189)</u>	<u>(46,652)</u>	<u>(80,230)</u>	<u>(12,448,765)</u>	<u>(2,042,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	399,526	277,760	(5,176)	179,896	852,006	186,095
Cash Flows from Investing Activities	<u>399,526</u>	<u>277,760</u>	<u>(5,176)</u>	<u>179,896</u>	<u>852,006</u>	<u>186,095</u>
Net Cash Flows	<u>(8,078,437)</u>	<u>(596,576)</u>		<u>1,168,995</u>	<u>(7,506,018)</u>	<u>(852,650)</u>
Cash and cash equivalents at beginning of period	29,297,070	11,913,893		7,721,671	48,932,634	10,120,036
Cash and cash equivalents at end of period	<u>\$21,218,633</u>	<u>\$11,317,317</u>		<u>\$8,890,666</u>	<u>\$41,426,616</u>	<u>\$9,267,386</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:						
Operating income (loss)	\$2,288,590	\$3,821,822	(\$384,412)	(\$6,160,305)	(\$434,305)	\$556,126
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation	3,111,450	292,779	161,947	65,082	3,631,258	885,323
Change in assets and liabilities:						
Receivables, net	(242,813)	(196,757)	(2)	(4,151,456)	(4,591,028)	(540,197)
Prepaid items & inventory			1,058		1,058	
Other assets						(10,291)
Accounts payable and other accrued expenses	(625,517)	(928,025)	12,693	(120,471)	(1,661,320)	(132,026)
Claims payable						569,050
Net OPEB Obligation						(199,510)
Deposits payable	(34,278)	(700,917)	(2,218)	14,976	(722,437)	
Deferred revenue						24,714
Vacation and sick leave payable	(434,446)	1,778			(432,668)	(8,035)
Cash Flows from Operating Activities	<u>\$4,062,986</u>	<u>\$2,290,680</u>	<u>(\$210,934)</u>	<u>(\$10,352,174)</u>	<u>(\$4,209,442)</u>	<u>\$1,145,154</u>

See accompanying notes to financial statements

FIDUCIARY FUNDS

All Agency Funds, representing all fiduciary funds of the City, are custodial in nature and do not involve measurement of results of operations. Such funds have no equity since any assets are due to individuals or other entities at some future time.

These funds are presented separately from the Governmental and Fund Financial Statements.

Payroll Fund

To account for the collection and payment of all payroll deductions made from the City employees and for monies collected from retirees to reimburse the City for their share of their health insurance premiums.

Napa Valley Corporate Park Assessment District Fund

To account for the collections and disbursements of the Napa Valley Corporate Park Assessment District's special assessments and bond payments.

CITY OF NAPA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2011

	Agency Funds
ASSETS	
Cash and investments (Note 3)	\$1,048,512
Restricted cash and investments (Note 3)	214,505
Accounts receivable	134
Interest receivable	1,434
Loan receivable	96,000
Total Assets	\$1,360,585
LIABILITIES	
Accounts payable	\$778,313
Due to bondholders	582,272
Total Liabilities	\$1,360,585

See accompanying notes to financial statements

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Napa, California (the City) was incorporated on March 23, 1872, under the laws of the State of California. The City's Charter was filed on October 27, 1914. The City operates under a council-manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Napa and its component units. The following component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with that of the City.

The Napa Community Redevelopment Agency (the Redevelopment Agency) was established pursuant to the Community Redevelopment Law of the State of California. The City Council established the Redevelopment Agency on November 19, 1962, and designated itself as the governing body.

The Housing Authority of the City of Napa (the Housing Authority) was established on May 8, 1942. On July 7, 1969, the City Council declared itself to be the Board of Commissioners of the Housing Authority in accordance with Section 34920 of the Health and Safety Code of the State of California.

The Parking Authority of the City of Napa (the Parking Authority) was established pursuant to the Streets and Highways Code of the State of California. The City Council established the Parking Authority on April 27, 1970 and designated itself as the governing body. The primary purpose of the Authority is to acquire, maintain and operate off-street parking facilities within the City. The Parking Authority reports no financial transactions during the year ended June 30, 2011.

The City of Napa Public Facilities Financing Authority (the Financing Authority) was established in April, 1985 as a tax exempt corporation with the power to purchase, lease, assign, encumber or otherwise dispose of any real or personal property. The primary purpose of the Financing Authority is to render financial assistance to the City by financing the purchase or construction of public facilities. The City Council is the governing body of the Financing Authority. The Financing Authority reports no financial transactions during the year ended June 30, 2011.

Complete financial statements of the following individual component units can be obtained from their respective administrative offices.

Napa Community Redevelopment Agency
1600 Clay Street
Napa, California 94559

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

These *Basic Financial Statements* are prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The City's financial position and results of operations are presented from two perspectives in the following two sets of financial statements:

Government-wide Statements include the *Statement of Net Assets* and the *Statement of Activities*, and report the financial activities of the overall City using an economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Eliminations have been made to minimize the double counting of internal activities. 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* presents a comparison between direct expenses and program revenues for each function of the City. Direct expenses are those that are specifically associated with a program or function. Certain indirect costs are included in program expenses reported for individual functions and activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) operating grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) capital fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

The City may pay for its programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
--

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds, which have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

The **Development Fees Special Revenue Fund** accounts for development fees levied by the City on new construction. City ordinance restricts these revenues for use in construction, major maintenance, and debt service for park, street, drainage, and public safety facilities.

Home Program Fund - The City has been awarded grants under the State of California Federal Home Investment Partnership Program (HOME) for administration of the following activities: ownership rehabilitation, rental rehabilitation augmenting the Community Development Block Grant Rehabilitation Program, a silent second down payment assistance program; and a rental assistance program.

The **City Capital Projects Fund** accounts for the City's current construction projects, including streets, park and recreation facilities, and other major city projects. The primary sources of funds include city-levied development fees, the state gas tax, and federal and state grants.

The City reports all its enterprise funds as major funds in the accompanying financial statements:

The **Water Utility Fund** accounts for the operations and management of the City's water system.

The **Material Diversion Utility Fund** accounts for administration of the City's garbage franchise, including tipping fees, a rate stabilization fund, and other specialized services. The fund does not report the financial position or activities of the City's franchise operator.

The **Golf Course Fund** accounts for the operations and management of the City's Kennedy Park golf course. Course operations are managed by a contractor.

The **Housing Fund** accounts for the operations of the Housing Authority.

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also reports the following fund types:

Internal Service Funds – These funds account for GASB 45 post employment benefits expense and liabilities, workers’ compensation and general liability coverage, management information system maintenance and replacement, equipment maintenance and replacement, and central stores inventory; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds – These funds account for deposits held by the City as an agent.

D. Basis of Accounting

Governmental Funds are used to report the majority of the City’s programs. These funds are reported in the *Fund Financial Statements* on the modified accrual basis of accounting, with a focus on current financial resources. This basis differs from the accrual basis of accounting used to report the government-wide financial statements and the business-type fund financial statements.

Revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. The sixty day limit may be extended for certain revenues. Revenues susceptible to accrual include taxes, intergovernmental revenues, charges for services and interest revenue. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the *Fund Financial Statements*, deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Business-type Funds of the City are reported on the accrual basis of accounting in the Fund Financial Statements. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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E. Cash and Investments

The City maintains a cash and investment pool, which includes unrestricted cash balances and authorized investments for all funds. Investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participant's equity withdrawn is based on the book value of the participant's percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, a short-term inter-fund loan transaction is recorded to offset the overdraft.

For purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments.

Cash and investments restricted by various long-term debt bond covenants are reported as restricted assets in the debt service or enterprise funds.

F. Tax Revenue

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can increase the assessed property valuation by no more than 2% per year. Napa County levies property taxes limited to \$1 per \$100 of assessed valuation for county, cities, schools and special districts' operating expenditures. This property tax levy is distributed to the different governmental agencies under the State-mandated alternate method of apportioning taxes (commonly referred to as the "Teeter Plan") whereby all local agencies with historical tax delinquency rates less than 3%, including cities, receive from the County 100% of their respective shares of the amount of ad valorem taxes levied, without regard to the actual collection of taxes levied. This method was placed in effect by the City and Napa County in the 1993 – 1994 tax year and remains in effect until the County Board of Supervisors orders its discontinuance.

City property tax revenues are recognized when levied to the extent that the measurable and available criteria have been met. Property taxes become an enforceable lien on property as of March 1; taxes are levied on July 1; taxes are payable in two installments on November 1 and February 1; taxes become delinquent on December 10 and April 10. The County bills and collects the property taxes and remits them to the City.

G. Inventories

Inventory in the proprietary funds is stated at the lower of its weighted average cost or market value. Inventory in the Internal Service Funds consists of spare parts and supplies.

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
--

H. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items), are reported on the government-wide *Statement of Net Assets*. Capital assets used in enterprise and internal service funds are also reported on those *Fund Financial Statements*. Since the governmental funds report only current, available resources on their *Fund Financial Statements*, capital outlay in those funds is reported as expenditure and not as an asset on the balance sheet.

Capital assets are recorded at cost. Donated assets are recorded at their estimated fair value at the date of donation. Fixed assets acquired under capital leases are recorded at the net present value of the future minimum lease payments.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested debt funds, if any, over the same period.

Depreciation on recorded capital assets is expensed on the straight line method over the following estimated useful lives:

Asset Classification	Years
Buildings and improvements	15 – 60
Vehicles and equipment	3 – 7
Roads	20 – 40
Bridges	75
Curbs/gutters/sidewalks	30 – 50
Traffic signals	40
Park improvements	20 – 30
Transmission and distribution systems	20 – 60
Street lights	30 - 40
Underground utilities	30 - 40
Stormwater	30 - 40

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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I. Compensated Absences

City employees may accumulate earned but unused vacation (up to a certain amount) and sick pay benefits. In the proprietary funds, vacation and vested sick leave pay is accrued when incurred and reported as a fund liability. In the governmental funds, leave pay for terminated employees is reported as an expenditure and a current fund liability. The full value of non-current accrued leave liabilities, for all funds, is reported on the government-wide Statement of Net Assets.

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$7,443,449	\$786,665	\$8,230,114
Net change	(5,075,595)	(432,668)	(5,508,263)
Ending balance	\$2,367,854	\$353,997	\$2,721,851
Current portion	\$45,590	\$78,634	\$124,224

The City formula for calculating compensated absences in prior years included a calculation to determine the amount of sick leave accumulated that had the potential to be converted to post-retirement health benefits per the various memoranda of understanding with the employee groups. In June 2010, the City opened a CERBT trust and made an initial contribution of \$1.5 million. In January 2011, the City began contributing to the trust for post-retirement health benefits as a percentage of payroll on a bi-weekly basis through the Post-Employment Benefits (PEB) fund. Because this portion of the compensated absence liability is now included in the separate PEB fund, the sick leave liability calculation has been removed from the compensated absence calculation. For June 30, 2010, the amount of compensated absence liability that related to the sick leave post-employment benefit liability amounted to \$5,442,370.

J. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF NAPA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 2 – BUDGETARY INFORMATION

The City biennially adopts an annual budget for the general fund. Project (versus annual) budgets (which can span a number of years) are adopted for most other governmental funds. Debt service fund budgets are adopted when the authorization of the debt issuance is authorized. All annual appropriations lapse at fiscal year end, unless special approval is granted by the Finance Director and City Manager for carry over to the subsequent year.

Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented in these financial statements.

At approximately February of every other year, all City departments submit requests for appropriations to the City Manager so that a budget may be prepared. In May, the proposed budget is presented to the City Council for review. The Council holds public hearings and a final budget is prepared and adopted on or before June 30.

The budget is prepared at the fund, function and department levels. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to make transfers between the departments. All other adjustments or changes require City Council approval. The legal level of budgetary control is the department level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year. Supplemental appropriations during the year ended June 30, 2011, were not significant relative to the budget as a whole.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.