

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

**NOTE 3 – CASH AND INVESTMENTS**

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds. This pooled cash is invested in an effort to enhance interest earnings while minimizing exposure to risk. The pooled interest earned is allocated to the funds based on cash and investment balances in these funds at the end of each accounting period.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds and component units.

City portfolio value fluctuates in an inverse relationship to any change in interest rates. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The City's practice is to buy and hold investments until their maturity dates.

**A. Deposits**

The California Government Code requires California banks and savings and loans to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on quarterly weighted average cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Cash and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Cash and investments available for operations	\$97,783,767
Restricted cash and investments	<u>13,975,417</u>
City cash and investments	111,759,184
Cash and investments available for operations in	
Fiduciary Funds (Separate Statement)	1,048,512
Restricted cash and investments in	
Fiduciary Funds (Separate Statement)	<u>214,505</u>
Total cash and investments	<u><u>\$113,022,201</u></u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2011**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

***B. Investments Authorized by the California Government Code and Investment Policy***

The table below identifies the investment types authorized under the provisions of the City's investment policy, and in accordance with the California Government Code. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	30 Days	N/A	20%	20%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000	N/A
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	None	None
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	None	None
Bankers' Acceptances	180 Days	A-1, P-1	30%	Lesser of \$2,000,000 or 5%
Commercial Paper	270 Days	A	25%	5%
Negotiable Certificates of Deposit	2 Years	A	30%	\$1,000,000
Time Certificates of Deposit – Banks or Savings and Loans	2 Years	N/A	None	\$500,000
Medium-Term Corporate Notes	5 Years	A	30%	5%
Money Market Mutual Funds	N/A	AAA	20%	10%

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

***C. Investments Authorized by Debt Agreements***

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee and the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
United States Treasury Bill, Bonds, Notes	5 years	N/A
United States Government Agency Obligations	5 years	N/A
Federal Securities	5 years	N/A
Bankers' Acceptances	30 days to 1 year	A-1
Commercial Paper	270 days to 1 year	A-1
Certificates of Deposit	30 days to 5 years	None to A
Repurchase Agreements	None to 30 days	A-1
Local Agency Investment Fund	n/a	Not rated
Money Market Funds	n/a	AA-m
Investment Agreements	None	None to AA
State and Municipal Bonds, Notes	None	Two Highest Categories
Prefunded Municipal Obligations	None	None to AAA
State Obligations	None	A
State Obligations - Direct Short-Term	None	A-1
State Obligations - Special Revenue Bonds	None	AA

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

***D. Disclosures Relating to Interest Rate Risk***

The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments as of June 30, 2011, by maturity:

Type of Investments	Less Than One Year	One to Three Years	Three to Five Years	Total
Local Agency Investment Fund	\$26,628,447			\$26,628,447
Guaranteed Investment Contract	3,132,568			3,132,568
U.S. Treasury Notes	2,597,992	\$1,375,036	\$4,396,172	8,369,200
Corporate Notes	484,568	8,336,385	5,739,428	14,560,381
Money Market Funds (U.S. Securities)	2,589,510			2,589,510
Certificates of Deposit	500,591	500,000		1,000,591
Commercial Paper	599,524			599,524
Federal Agency Securities	8,729,449	15,843,564	7,138,513	31,711,526
Total Investments	<u>\$45,262,649</u>	<u>\$26,054,985</u>	<u>\$17,274,113</u>	88,591,747
<i>Cash in banks and on hand</i>				<u>24,430,454</u>
Total Cash and Investments				<u>\$113,022,201</u>

***E. Disclosures Relating to Credit Risk***

Credit Risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as June 30, 2011, for each investment type.

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-/A1/A1+	Total
<i>Held by Trustees:</i>				
Guaranteed investment Contract	\$3,132,568			\$3,132,568
Corporate Notes	1,835,887	\$6,242,752	\$6,481,742	14,560,381
Commercial Paper			599,524	599,524
Certificates of Deposit		500,000	500,591	1,000,591
Money Market Funds (U.S. Securities)	2,589,510			2,589,510
Federal Agency Securities	31,711,526			31,711,526
Total	<u>\$39,269,491</u>	<u>\$6,742,752</u>	<u>\$7,581,857</u>	53,594,100
<i>Not Rated:</i>				
Local Agency Investment Fund				26,628,447
<i>Exempt from credit rating disclosure:</i>				
U.S. Treasury Notes				8,369,200
<i>Cash in banks and on hand</i>				<u>24,430,454</u>
Total Cash and Investments				<u>\$113,022,201</u>

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

***F. U.S. Credit Downgrade***

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks (FFCB) from AAA to AA+, and lowered the senior issue ratings on Fannie Mae (FNMA) and Freddie Mac (FHLMC) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. Finally, S&P affirmed the short-term issue ratings for these entities at A-1+.

On August 8, 2011, S&P also lowered the ratings on 126 Federal Deposit Insurance Corporation-guaranteed debt issues from thirty financial institutions that are under the Temporary Liquidity Guarantee Program (TLGP), and four National Credit Union Association-guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program (TCCUGP) from AAA to AA+.

***G. Investments in Local Agency Investment Funds***

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2011, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

***H. Concentration of Credit Risk***

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total investments in Entity-wide, individual major funds, non-major funds in the aggregate, or fiduciary fund type investments are as follows at June 30, 2011:

<u>Reporting Unit</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
<b>Entity - Wide:</b>	Federal National Mortgage Association	Federal Agency Securities	\$10,902,723
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,830,388
	Federal Farm Credit Bank	Federal Agency Securities	6,485,725

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**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Transfers**

Transfers report the contribution of resources from one fund to another. The following is a summary of transfers for the year ended June 30, 2011:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
<b>General Fund</b>	Home Program Fund	\$17,196 A
	City Capital Projects Fund	50,000 B
	Water Utility Fund	1,742,826 A
	Materials Diversion Utility Fund	755,827 A
	Golf Course Fund	31,045 A
	Housing Fund	72,498 A
	Non-Major Governmental Funds	2,375,063 A/D
	Internal Service Funds	529,634 A
<b>Development Fee Fund</b>	General Fund	5,177 B
<b>City Capital Projects Fund</b>	General Fund	487,145 C
	Development Fees Fund	2,218,932 C
	Non-Major Governmental Funds	6,386,681 C
<b>Golf Fund</b>	General Fund	70,000 B
<b>Housing Fund</b>	Non-Major Governmental Funds	1,900,767 B/E
<b>Non-major Governmental Funds</b>	General Fund	162,682 B
	City Capital Projects Fund	2,178,650 B
	Materials Diversion Utility Fund	750,000 B
	Non-Major Governmental Funds	11,096,705 B/C
	Water Utility Fund	100,000 C
	Housing Fund	1,967,427 F
<b>Internal Service Funds</b>	General Fund	8,233 B
	City Capital Projects Fund	180,600 B
	Non-Major Governmental Funds	46,676 B
	Water Utility Fund	55,000 B
	Internal Service Funds	689,273 B
Total Interfund Transfers		\$33,878,037

- A To Fund Citywide Overhead
- B To Fund Operations
- C To Fund Capital Projects
- D To Fund Public Projects Financing Agreement with the Redevelopment Agency
- E To Transfer the 5% Supplemental Set Aside
- F To Fund Debt Service Payments

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 4 – INTERFUND TRANSACTIONS (Continued)**

***B. Interfund Balances***

Interfund balances are loans between funds to provide either short-term cash flow or funding for longer-term projects. The following is a summary of interfund balances as of June 30, 2011:

From Fund:	To Fund:	Amount
Due to/from other funds:		
General Fund	Golf Course Fund	\$220,234
	Housing Fund	796
	Internal Service Funds	457,432
	Non-Major Governmental Fund	4,193,370
Housing Fund	Non-Major Governmental Fund	<u>21,718</u>
		<u>\$4,893,550</u>
Advances to/from other funds:		
General Fund	Golf Course Fund	\$482,850 (A)
Development Fees Fund	Golf Course Fund	214,200 (B)
City Capital Projects Fund	Golf Course Fund	675,000 (A)
Water Utility Fund	Non-Major Governmental Fund	<u>789,724 (C)</u>
		<u>\$2,161,774</u>

- (A) To fund capital improvements at the City's golf course and payable from operating surplus.  
(B) Quadrant Development Fee advance used to fund Golf Course water irrigation surcharge.  
(C) To provide interim funding for capital improvements in the new project area until the debt market has improved.

***C. Internal Balances***

Internal balances are presented only in the City-wide financial statements. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**CITY OF NAPA**  
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**NOTE 5 – LOANS RECEIVABLE**

The City has extended long-term loans to support affordable housing and economic development. All loans are secured by real estate. Since some of these loans are secured by trust deeds which are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may be not be realized. As a result, a portion of the outstanding balances of the loans has been offset by a valuation allowance. These long-term loans receivable consisted of the following at June 30, 2011:

	Term (Years)	Rate %	Outstanding Balance at June 30, 2011
Home Program:			
First time homebuyers down payment assistance	20-30	3%	\$6,807,635
The Reserve at Napa	30	3%	874,000
CDBG Housing Rehabilitation Program	20	3-10%	1,289,681
20% Low- and Moderate Income Housing:			
Mayacamas Village Associates	30	4%	485,766
Napa Park Apartments	30	3%	254,805
Parkwood Project	40	N/A	100,942
Silverado Creek Apartments	45	3.5%	3,085,649
Pecan Court Project	40	4%	735,067
Schoolhouse Project	40	N/A	591,166
First time homebuyers down payment assistance	20-30	3%	856,200
Jefferson Street Senior Housing (NVCH)	40-41/60	0-3.5%	300,000
Napa Garden Court	55	4%	1,540,000
Rohlffs Concordia Manor	55	1%	785,000
Rohlffs Manor III	55	3%	250,000
Coombesville	30	3%	220,000
Local Housing Fund:			
Pioneer Village	various	7%	119,130
Pueblo Orchard	10	3.5%	237,500
Charter Oaks	25	3.5%	50,000
RDA Supplemental - Bain, Thomas			125,100
Housing and Inclusionary Fund :			
Magnolia Park	55	3.5%	300,000
Jefferson Street Housing (NVCH) - City	60	N/A	514,431
Napa Garden Court Associates	5	3%	230,000
County of Napa	55	N/A	500,000
Coombsville (NVCH)	55	4%	13,616
Cal Home Grant	5	3%	317,097
Whistle Stop Town homes	35	3.5%	44,000
Magnolia Park	55	3.5%	221,125
Water Loan			
American Canyon Loan	5	4%	350,000
Totals, before interest and valuation allowance			21,197,910
Accrued Interest			2,196,108
Valuation allowance			(2,483,503)
Net			<u>\$20,910,515</u>

**CITY OF NAPA**  
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**NOTE 6 – LAND HELD FOR REDEVELOPMENT**

As of June 30, 2011, the balance of land being held for future development amounted to \$125,691. However, the City and Agency have not entered into any development agreement as of June 30, 2011.

**NOTE 7 – CAPITAL ASSETS**

**A. Additions and Retirements**

Governmental-type capital assets activity for the year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2011
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$22,986,863	\$1,973,778	(\$457,500)		\$24,503,141
Construction in progress	73,057,092	13,367,089		(\$305,371)	86,118,810
Total capital assets not being depreciated	<u>96,043,955</u>	<u>15,340,867</u>	<u>(457,500)</u>	<u>(305,371)</u>	<u>110,621,951</u>
Capital assets being depreciated:					
Building and improvements	27,365,600				27,365,600
Equipment	5,951,875	232,904			6,184,779
Vehicles	13,405,184	1,062,951	(762,040)		13,706,095
Bridges	28,066,680				28,066,680
Roads	398,751,569				398,751,569
Curb/gutter/sidewalks	5,371,565				5,371,565
Traffic signals	4,261,512				4,261,512
Stormwater	4,428,822				4,428,822
Park improvements	4,508,858				4,508,858
Underground Utilities	64,761				64,761
Street Lights	1,407,671				1,407,671
Total capital assets being depreciated	<u>493,584,097</u>	<u>1,295,855</u>	<u>(762,040)</u>		<u>494,117,912</u>
Less accumulated depreciation for:					
Building and improvements	(14,997,377)	(600,351)			(15,597,728)
Equipment	(5,426,722)	(212,415)			(5,639,137)
Vehicles and rentals	(7,875,090)	(869,000)	762,040		(7,982,050)
Bridges	(8,633,439)	(374,222)			(9,007,661)
Roads	(195,798,940)	(10,224,073)			(206,023,013)
Curb/gutter/sidewalks	(547,130)	(134,290)			(681,420)
Traffic signals	(544,570)	(106,539)			(651,109)
Stormwater	(306,196)	(106,163)			(412,359)
Park improvements	(1,362,711)	(215,916)			(1,578,627)
Underground Utilities	(4,613)	(1,619)			(6,232)
Street Lights	(103,712)	(35,192)			(138,904)
Total accumulated depreciation	<u>(235,600,500)</u>	<u>(12,879,780)</u>	<u>762,040</u>		<u>(247,718,240)</u>
Net capital assets being depreciated	<u>257,983,597</u>	<u>(11,583,925)</u>			<u>246,399,672</u>
Governmental activities capital assets, net	<u>\$354,027,552</u>	<u>\$3,756,942</u>	<u>(\$457,500)</u>	<u>(\$305,371)</u>	<u>\$357,021,623</u>

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**NOTE 7 – CAPITAL ASSETS (Continued)**

Business-type capital assets activity for the year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Balance at June 30, 2011
<b><i>Business-type Activities</i></b>			
Capital assets not being depreciated:			
Land and improvements	\$5,506,614		\$5,506,614
Construction in progress	39,178,368	\$7,366,465	46,544,833
	<u>44,684,982</u>	<u>7,366,465</u>	<u>52,051,447</u>
Total capital assets not being depreciated			
Capital assets being depreciated:			
Building and improvements	41,534,401	141,444	41,675,845
Equipment	5,503,361	105,730	5,609,091
Transmission and distribution	100,562,808		100,562,808
	<u>147,600,570</u>	<u>247,174</u>	<u>147,847,744</u>
Total capital assets being depreciated			
Less accumulated depreciation for:			
Building and improvements	(20,057,372)	(1,166,071)	(21,223,443)
Equipment	(2,395,151)	(282,880)	(2,678,031)
Transmission and distribution	(39,863,996)	(2,182,307)	(42,046,303)
	<u>(62,316,519)</u>	<u>(3,631,258)</u>	<u>(65,947,777)</u>
Total accumulated depreciation			
Net capital assets being depreciated	<u>85,284,051</u>	<u>(3,384,084)</u>	<u>81,899,967</u>
Business-type activities capital assets, net	<u>\$129,969,033</u>	<u>\$3,982,381</u>	<u>\$133,951,414</u>

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33430 and 33220 to allow the conveyance of nineteen parcels that had been recorded as capital assets with a book value of \$3,639,374 to the City.

**B. Depreciation Allocation**

Depreciation expense is charged to functions and programs on the government-wide *Statement of Activities* based on their usage of the related assets. The amounts allocated to each function or program is as follows:

Governmental activities		Business-type activities	
General government	\$111,380	Water utility	\$3,111,450
Public safety	250,883	Garbage	292,779
Public works	11,008,392	Golf course	161,947
Parks and recreation	351,327	Housing	65,082
Redevelopment	272,475		
Internal service funds	885,323	Total	<u>\$3,631,258</u>
	<u>\$12,879,780</u>		
Total			

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**NOTE 8 – OPERATING LEASES**

The operators of the golf course entered into a leasing agreement with Yamaha Motor Corporation for 75 golf carts on July 5, 2007, with a term of 5 years and a minimum monthly payment of \$3,813 commencing September 2007 and ending August 2012. The operator is also leasing its telephone equipment and copier on a month-to-month basis. Total equipment lease expense was \$54,813 for the year ended June 30, 2011.

The future minimum lease payments are as follows:

Year Ending June 30	Payments
2012	\$50,352
2013	12,222
2014	4,539
2015	3,715
2016	840
Total	<u>\$71,668</u>

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**NOTE 9 – LONG-TERM DEBT**

**A. Current Year Transactions and Balances**

The following table summarizes the changes in the City’s long-term debt and other non-current liabilities during the year ended June 30, 2011:

	Original Issue Amount	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
<b>Governmental Activity Debt:</b>						
<b>Redevelopment Tax Allocation Bonds</b>						
2003A Parkway Plaza Redevelopment Project, 2.3-4.8%, due 9/1/2019	\$22,715,000	\$17,445,000		(\$1,365,000)	\$16,080,000	\$1,460,000
2003B Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,475,000	1,730,000		(130,000)	1,600,000	145,000
2003B Refunding Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,050,000	1,460,000		(120,000)	1,340,000	125,000
Total Redevelopment Tax Allocation Bonds		20,635,000		(1,615,000)	19,020,000	1,730,000
Landbanking Note Payable, 3%, due 1/13/2012	1,000,000	1,246,000	\$14,579	(1,260,579)		
Fleet Capital Fund Capital Lease, 3.5%, 2/1/15	328,846	328,846		(109,972)	218,874	58,709
Total Governmental Activities Debt		\$22,209,846	\$14,579	(\$2,985,551)	\$19,238,874	\$1,788,709
<b>Business-type Activity Debt:</b>						
<b>Revenue Bonds</b>						
2004 Solid Waste Revenue Bonds, 1.59-5.63%, due 8/1/2019	\$7,035,000	\$5,075,000		(\$410,000)	\$4,665,000	\$430,000
Less unamortized discount		(298,563)		22,115	(276,448)	
2007 Water Revenue Bonds 4-5%, due 5/1/2035	47,350,000	47,350,000		(1,050,000)	46,300,000	1,095,000
Plus unamortized premium (issuance cost)		1,164,412		(46,575)	1,117,837	
Total revenue bonds		53,290,849		(1,484,460)	51,806,389	1,525,000
Water Fund Note Payable - Alston Park Tank 2.6%, due 4/1/2023	3,080,000	2,140,653		(146,981)	1,993,672	150,724
Seminary Street, 5.5%, due 7/31/2027	1,244,000	1,013,573		(37,415)	976,158	39,407
Umpqua Bank Notes Payable - Solar Panel 4.37%, due 7/01/2025	1,400,000	1,176,639		(56,478)	1,120,161	59,009
State of CA-Dept of Water Resources Notes Payable						
Imola Avenue reservoir tank 2.4%, due 9/30/2026	2,976,131	2,573,952		(128,835)	2,445,117	131,828
Water Fund Capital Lease, 4.7% due 6/30/2035	29,014,737	21,152,015		(555,354)	20,596,661	581,528
Kennedy Park Golf Course Capital Lease, 4.34% due 6/30/2015		150,099		(46,652)	103,447	48,041
Total Business-type Activity Debt		\$81,497,780		(\$2,456,175)	\$79,041,605	\$2,535,537

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

**NOTE 9 – LONG-TERM DEBT (Continued)**

***B. Redevelopment Tax Allocation Bonds***

The Redevelopment Tax Allocation Bonds were issued in August 2003 by the Redevelopment Agency to provide funds for public improvements within, or of benefit to, the Parkway Plaza Redevelopment Project.

In August, 2003, the Agency issued \$27 million in tax allocation bonds as follows:

**Series A Bonds** were issued to provide \$12 million for redevelopment projects, \$2 million for a debt reserve fund and \$9 million to refund then outstanding 1993 Bonds. The 1993 Bonds were subsequently redeemed in full.

The Pledge of future Agency tax increment revenues ends upon payment of the \$19.7 million in remaining debt service on the Redevelopment Agency's long-term debt which is scheduled to occur in 2020. As disclosed in the originating offering documents, pledged future tax increment revenues are expected to provide coverage over debt service of 1.7 over the life of the long-term debt. For fiscal year 2011, Agency tax increment revenue amounted to \$5,660,392, which represented coverage of 2.68 times over the \$2,114,033 in debt service.

**Series B and C Bonds** were issued to provide \$2.1 million for affordable housing projects and \$1.8 million for the retirement of the Housing Authority's 1999 revenue bonds. Total net proceeds of \$3.9 million have been committed by the Agency to the Housing Authority. These bonds are secured by the Agency's 20% low & moderate housing set-aside of tax increment revenues.

The Pledge of future Housing tax increment revenues ends upon payment of the \$3.7 million in remaining debt service on the Redevelopment Agency's long-term debt which is scheduled to occur in 2020. As disclosed in the originating offering documents, pledged future tax increment revenues are expected to provide coverage over debt service of 1.3 over the life of the long-term debt. For fiscal year 2011 Housing tax increment revenue amounted to \$574,396 which represented coverage of 1.40 times over the \$409,775 in debt service.

***C. Landbanking Note Payable***

The City borrowed \$781,487 in 2001 as its initial draw on a \$1 million loan commitment from the State of California for the purchase of land to be held for affordable housing development. The remaining loan commitment of \$218,513 was drawn during the year ended June 30, 2003, to provide funds for an affordable housing development loan. The note accrues and defers 3% interest. This note was paid in full in fiscal year 2011 to recognize an early payoff discount.

***D. Fleet Capital Lease***

The City entered into a lease agreement in fiscal year 2009-10 for an asphalt paver. The lease agreement qualifies as capital leases for accounting purposes, and, therefore has been recorded at the present value of future minimum lease payments as of the inception date. The leased asset has a capitalized cost of \$241,150.

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

**NOTE 9 – LONG-TERM DEBT (Continued)**

***E. Water Fund Obligations***

In April 2007, the City issued **Series 2007 Water Revenue Bonds** for the principal amount of \$47,350,000. The proceeds of the sale of the bond will be used to provide funding to finance improvements to the City's water system. In addition the bond proceeds will go toward funding a reserve account for the bonds as well as paying the costs of issuance. Bonds bear interest payable bi-annually on May 1 and November 1 of each year commencing on November 1, 2007 until maturity in May 2035. Debt service is secured by a pledge of net revenues of the City's Water System.

The pledge of future Water System Revenues ends upon repayment of the \$32.9 million in remaining debt service which is scheduled to occur in 2035. For fiscal year 2011, Water Fund Revenues including operating revenues and non-operating interest earnings amounted to \$19.8 million and operating costs include operating expenses, but not interest, depreciation or amortizations and amounted to \$11.7 million. Net Revenues available for debt service amounted to \$8.2 million which represented coverage of 2.47 over the \$3.3 million in debt service.

The City was approved for a **State Loan** of \$3.08 million at favorable interest rate of 2.6%, to be repaid in semi-annual payments over 20 years. The note proceeds were applied towards building and installing a 4 million gallon tank and a pump station. The construction of the tank was completed in May 2002 and loan repayments began in April 2003.

**Umpqua Bank Notes Payable** – In August 2005, the Water Enterprise Fund borrowed \$1,400,000 from Umpqua bank for purchase and installation of solar energy system for the City. The note carries an interest rate of 4.37% and payable semi annually through July 1, 2025.

**State of California-Department of Water Resources Notes Payable** – In May 2005, the State California- Department of Water Resources agreed to partially finance the construction of water reservoir tank at Imola Avenue. Under the agreement, the City borrowed \$2,976,131 for the project in April 2006. The interest rate is 2.4% and installments are payable semi annually through September 2026.

**Water Fund Capital Lease** – The City has a water supply contract with the Water District that is linked to a master contract between the Water District and the State of California. Under these contracts, the State of California built the North Bay Aqueduct and peripheral infrastructure and allocated the costs to the benefiting municipalities. The contract calls for an annual payment that includes capital and operating components as well as a charge for water. The contract is non-cancelable and expires in the year 2035. Under the terms of the contract, the City is liable for the capital components regardless of whether or not it receives water. For this reason, the City is treating this contract as a capital lease. The leased infrastructure has been capitalized together with the capital lease obligation. The implicit interest rate under the contract is approximately 4.7%. The infrastructure is being amortized over its useful life of 50 years. At June 30, 2011, the balance of the leased asset (representing use of the infrastructure and water rights) and related capital lease obligation was \$13,927,065 and \$20,596,663 respectively. Annual amortization of the asset is \$581,528. The contract bears an implicit interest rate at approximately 4.7%, payable through 2035.

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

**NOTE 9 – LONG-TERM DEBT (Continued)**

***F. Solid Waste Revenue Bonds***

In January, 2004, the City issued its 2004 Solid Waste Revenue Bonds, Series 2004, in the original principal amount of \$7,035,000. The proceeds of the sale of the bonds will be used to finance the City's acquisition of the remaining ownership interest in a material recovery facility and other improvements that are a part of City's solid waste, collection and recycling system. The amount will also be used to fund a reserve account for the Bonds and pay certain costs incurred in connection with issuing the Bonds. Bonds were issued with a par of \$7,035,000 and carried interest rates from 1.59% to 5.63% through maturity in 2019. Debt service is secured with a pledge of franchise operator revenues.

The pledge of future Solid Waste System Revenues ends upon repayment of the \$6 million in remaining debt service on the bonds which is scheduled to occur in 2020. As disclosed in the originating offering documents, projected net revenues are expected to provide coverage over debt service of 1.3 over the life of the bonds. For fiscal year 2011, Solid Waste System Revenues including operating revenues and non-operating interest earnings amounted to \$23.4 million and operating costs include operating expenses, but not interest, depreciation or amortizations and amounted to \$18.9 million. Net Revenues available for debt service amounted to \$4.5 million which represented coverage of 6.68 over the \$0.7 million in debt service.

***G. Housing Authority Note Payable***

***Seminary Street*** – In September 1998, the City of Napa Housing Authority borrowed \$714,000 from a local bank to finance the acquisition of a commercial office building to house the Authority and another tenant. During the year ended June 30, 2003, additional bank credit was extended to finance major renovations to the building. The loan was converted to permanent financing with a monthly amortization schedule through 2027.

***H. Kennedy Park Golf Course Capital Lease***

The operators of the golf course operations have entered into lease agreements for golf carts and some maintenance equipment. These lease agreements qualify as capital leases for accounting purposes, and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date. Leased assets have a capitalized cost of \$236,363 and a net book value of \$136,719.

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

**NOTE 9 – LONG-TERM DEBT (Continued)**

**I. Debt Service Requirements**

The City's annual debt service requirements through maturity are as follows:

Fiscal year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$3,064,709	\$1,097,405	\$2,535,537	\$3,613,377
2013	1,860,797	778,815	2,171,240	3,515,239
2014	1,977,960	699,136	3,174,328	3,403,149
2015	2,046,408	607,376	2,337,103	3,276,268
2016	2,100,000	507,883	2,411,991	3,181,829
2017-2021	9,465,000	943,151	16,641,050	13,903,376
2022-2026			15,500,645	10,099,208
2027-2031			17,061,530	6,480,367
2032-2036			16,366,792	1,959,939
Total	<u>\$20,514,874</u>	<u>\$4,633,766</u>	78,200,216	<u>\$49,432,752</u>
Less unamortized premium (discount/issuance cost)			<u>841,389</u>	
Net long-term debt			<u>\$79,041,605</u>	

**NOTE 10 – SPECIAL ASSESSMENT DEBT**

Napa Valley Corporate Park Reassessment District No. 1997-1 bonds were issued in 1997 and refinanced in 2001. The bonds are limited obligations of the City secured by assessments against properties in the assessment district. The debt bears interest ranging from 3.1% to 5.2%, paid semi-annually through 2011. The bonds are repaid from assessment installments levied annually against the subject property. The City is not obligated to advance any available City funds to cover any deficiency that may occur in the redemption fund by reason of the failure of a property owner to pay a reassessment installment. Funds held in trust for the bonds are accounted for in the Agency fund. This bond issue does not constitute or create an indebtedness of the City or a debt or pledge of its general credit for taxing power. Accordingly, it is not recorded in the accompanying financial statements. Principal outstanding at June 30, 2011, was \$495,000.

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

**NOTE 10 – SPECIAL ASSESSMENT DEBT (Continued)**

**A Mortgage Revenue Bonds**

The City has issued the following mortgage revenue bonds to provide funds for the construction and permanent financing of multi-family housing projects. Twenty percent of units developed will be held and made available for occupancy by persons of low income. The bonds are secured by the land and housing projects. The bonds do not constitute or create a debt or pledge of the general credit or taxing power of the City and, accordingly, they are not recorded in the accompanying financial statements.

Year of Issue	Project	Original Principal	Maturity Date	Principal at June 30, 2011
City of Napa				
1992	Creekside Park A	\$2,890,000	July 1, 2024	\$2,005,000
1994	Creekside Park II A - Refunding	4,780,000	July 1, 2025	3,690,000
1995	Napa Park A, A-T, and A-IQ	7,100,884	June 20, 2035	5,210,884
	subtotal	14,770,884		10,905,884
Housing Authority				
1999	Silverado Creek A	4,863,000	June 1, 2031	4,134,000
2001	Vintage at Napa	7,500,000	June 15, 2034	6,285,000
2001	The Reserve at Napa	6,000,000	August 1, 2031	5,135,097
2001	Charter Oaks Apartments	4,215,000	August 1, 2018	3,631,272
2004	Magnolia Park Series 2004A	4,500,000	December 1, 2035	4,500,000
	subtotal	27,078,000		23,685,369
	Total	\$41,848,884		\$34,591,253

**NOTE 11 – NET ASSETS AND FUND BALANCES**

**A. Net Assets**

Net assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three categories, which are determined at the Governmental Activities and Business-type Activities, and are described below:

**Invested in Capital Assets, net of related debt** describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

**Restricted** describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include bond proceeds received for use on capital projects, debt service requirements, and special revenue programs subject to limitations defined regulations and laws underlying such programs.

**Unrestricted** describes the portion of net assets which is not restricted as to use.

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

<b>NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)</b>
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***B. Fund Balance***

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. If the expenditures incurred are *NOT* for the purpose for which the funds were originally committed or assigned, Unassigned fund balance shall be reduced first, followed by assigned, and then committed. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendable* represents balances set aside to indicate items that do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

*Assigned* fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. The Finance Director is designed the authority to "assign" amounts to be used for specific purposes. This category includes encumbrances, Nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

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

**NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)**

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

	<u>General</u>	<u>Development Fees</u>	<u>Home Program</u>	<u>City Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Nonspendables:</b>						
Notes Receivable	\$482,850					\$482,850
Advance due from Golf Fund				\$675,000		675,000
<b>Total Nonspendable Fund Balances</b>	<b>482,850</b>			<b>675,000</b>		<b>1,157,850</b>
<b>Restricted for:</b>						
Redevelopment Projects and Programs					\$6,724,082	6,724,082
Debt Service					433,678	433,678
Grants	28,287		\$135,304		1,044,455	1,208,046
PEG Reserve	9,643					9,643
Gas Tax/Prop 1B (Spendable Fund Balance)					847,810	847,810
Tourism Improvement District		\$278,719				278,719
Federal Urban Aide				270,173		270,173
Public Safety Programs					16,096	16,096
<b>Total Restricted Fund Balances</b>	<b>37,930</b>	<b>278,719</b>	<b>135,304</b>	<b>270,173</b>	<b>9,066,121</b>	<b>9,788,247</b>
<b>Committed to:</b>						
NVOH Loan	1,500,000					1,500,000
Red Light Camera					608,123	608,123
Capital Projects	790,145					790,145
Building Reserve				2,150,075		2,150,075
Corp Yard Expansion				30,635		30,635
Low Flow Channel				181,270		181,270
Napa Creek				2,000,000		2,000,000
Low Income Housing					4,503,485	4,503,485
Development		17,488,247				17,488,247
Assessment Districts					5,932,996	5,932,996
<b>Total Committed Fund Balances</b>	<b>2,290,145</b>	<b>17,488,247</b>		<b>4,361,980</b>	<b>11,044,604</b>	<b>35,184,976</b>
<b>Assigned to:</b>						
Outstanding Contractual Obligations	1,796,391					1,796,391
Emergency Reserve	7,486,673					7,486,673
Non Recurring Projects	1,765,063					1,765,063
Capital Projects				2,629,650		2,629,650
Street Resurfacing Program					254,822	254,822
<b>Total Assigned Fund Balances</b>	<b>11,048,127</b>			<b>2,629,650</b>	<b>254,822</b>	<b>13,932,599</b>
<b>Unassigned:</b>						
General fund	4,342,268					4,342,268
Other governmental fund deficit residuals					(5,126,647)	(5,126,647)
<b>Total Unassigned Fund Balances</b>	<b>4,342,268</b>				<b>(5,126,647)</b>	<b>(784,379)</b>
<b>Total Fund Balances</b>	<b>\$18,201,320</b>	<b>\$17,766,966</b>	<b>\$135,304</b>	<b>\$7,936,803</b>	<b>\$15,238,900</b>	<b>\$59,279,293</b>

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

<b>NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)</b>
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**C.     *Encumbrances***

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Unexpended appropriations lapse at year-end and must be reappropriated in the following year unless carried forward in accordance with the City’s policy. Encumbrances outstanding in governmental funds as of June 30, 2011, were as listed below:

General	\$1,796,391
Home Program	1,405
City Capital Projects	6,511,803
Other Governmental Funds	<u>998,682</u>
Total	<u><u>\$9,308,281</u></u>

**D.     *Deficit Net Assets and Fund Balance***

As of June 30, 2011, the Parkway Plaza Debt Service Fund, IT Replacement Internal Service Fund, Post Employment Benefit Internal Service Fund, and the Golf Course Enterprise Fund had fund deficits amounting to \$1,696,641, \$4,200, \$367,120, and \$560,661, respectively. The deficits will be eliminated with future revenue.

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

<b>NOTE 12 – EMPLOYEE RETIREMENT SYSTEM</b>
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***A. Plan Description***

The City of Napa's defined benefit pension plan, the City of Napa Retirement System, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. It is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employee's Retirement Law. The City of Napa selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issue a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

***B. Funding Policy***

Active plan members in the City of Napa Retirement System are required to contribute 8% for miscellaneous employees or 9% for public safety employees of their annual covered salary. The City of Napa is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2011 was 17.257% for miscellaneous employees and 27.238% for public safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

***C. Annual Pension Cost***

For the year ended June 30, 2011, the City's annual pension cost was \$7,208,321. The required contribution for that year was determined as part of the June 30, 2010, actuarial valuation using the entry age normal cost method for miscellaneous employees and entry age normal cost method for safety employees with the contributions determined as a percent of pay, as amended in November, 2002 for a change in the safety plan benefit formula. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members (from 3.55% to 13.15% for safety members), and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over an open period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

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

**NOTE 12 – EMPLOYEE RETIREMENT SYSTEM (Continued)**

***D. Trend Information***

The following is a summary of the City’s annual pension cost and contribution status for the past three fiscal years:

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
Miscellaneous	6/30/2009	\$3,634,648	100%
	6/30/2010	3,802,023	100%
	6/30/2011	3,425,936	100%
Public Safety	6/30/2009	\$4,358,353	100%
	6/30/2010	4,278,883	100%
	6/30/2011	3,782,385	100%

***E. Defined Contribution Plans***

The City also provides defined contribution retirement benefits through IRS section 401(a) and 457 plans. The plans are administered by the International City Management Association Retirement Corporation and Nationwide Retirement Solutions. Plan provisions and contribution requirements are established and may be amended by City Council through negotiation with employee associations. The City contributes from \$50 to \$300 per month to its non-safety and management employees, depending upon employee group. In addition, the City contributes \$1,000 to \$1,250 for City executives. During the year ended June 30, 2011, the City fully funded its required contributions of \$277,487 to these plans.

***F. Funding Status***

The following is a summary of the Plan’s funding status from the three most recent annual actuarial valuations. Note that the funding status has changed significantly over these periods due to investment losses and changes to both the miscellaneous and safety plan benefit formulas.

	Valuation Date June 30:	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
Miscellaneous	2008	\$137,027,867	\$111,503,700	\$25,524,167	81%	\$20,425,702	125%
	2009	153,662,781	117,056,361	36,606,420	76%	21,714,083	169%
	2010	161,303,665	123,167,524	38,136,141	76%	21,776,039	175%
Public Safety	2008	\$140,706,318	\$112,928,449	\$27,777,869	80%	\$14,984,116	185%
	2009	152,758,690	118,719,972	34,038,718	78%	15,376,152	221%
	2010	160,144,064	124,678,041	35,466,023	78%	15,203,723	233%

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

**NOTE 13 – POST-EMPLOYMENT HEALTH BENEFITS**

During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits (OPEB). A summary of the eligibility requirements and benefits are shown below by bargaining unit:

UNIT	AMP	NCEA	NPOA	NPOA MID	NCEA	NCFA MID	Exempt-NCEA	Exempt-AMP	Exempt-Exces	Elected
■ Medical Plan	City Plan	City Plan	PEMHCA	City Plan	City Plan	City Plan	City Plan	City Plan	City Plan	City Plan
<b>Tier 1 - Choice of Sick Leave Conversion or Supplemental Benefit</b>										
■ Eligibility/DOH	<7/1/1982	<7/1/1983	<1/1/1984	<7/1/1984	<8/1/1982	<7/1/1982	<7/1/1982	<7/1/1982	<7/1/1982	N/A
■ Sick Leave Conversion	<ul style="list-style-type: none"> <li>•One time irrevocable choice at retirement</li> <li>•Must be enrolled in City healthcare plan at retirement (excludes NPOA)</li> <li>•Convert 8 hours unused sick leave to one month single party medical premium (single active for all but NCFA, NPOA and NPOA Mid, which - single party med premium)</li> <li>•No surviving spouse benefit.</li> <li>•Sick leave accrual - 96 hour/year or 134.4 hours/year, dependent on number of hours worked per week</li> <li>•Maximum hours - no limit</li> <li>•Caps for medical premiums are indicated below. (Note: premiums include Medicare Part B premium)</li> </ul>									N/A
■ Supplemental Benefit	•\$274/month •EE lifetime	•\$244/month •EE lifetime	N/A	•\$237/month •EE lifetime	N/A	N/A	N/A	N/A	N/A	N/A
<b>Tier 2</b>										
■ Eligibility	50 & 10	50 & 15	50 & 5	50 & 10	50 & 5 <sup>1</sup>	50 & 10 <sup>1</sup>	50 & 15	50 & 10	50 & 10	50 & 8
■ Benefit	•Eff 7/1/09 •\$274/month •EE lifetime •No increase after retirement	•Eff 12/1/08 •\$244/month •EE lifetime •No increase after retirement	•SLC - 8 hrs/month •Single party premium •Max 180 days (1,440 hours)	•7/1/84-<Hired<7/1/87 Kaiser single or flat \$274 for lifetime •Hired>7/1/87 SLC- 8hrs/mo of single party prem., max 180 days (1,440 hrs)	•SLC - 8 hrs/month •Single party premium •Max 180 days (1,440 hours)	•Choice of SLC or \$246/month lifetime (7/1/07) •SLC - 8 hrs/month •Single party premium •Max 180 days (1,440 hours)	•Eff 7/1/09 •\$244/mo •EE lifetime •No increase after retirement	•Eff 7/1/09 •\$274/mo •EE lifetime •No increase after retirement	•\$347/mo •EE lifetime •No increase after retirement	•\$347/month •EE lifetime •No increase after retirement
■ Cap (Tier 1 & 2)	• Active single Kaiser	• Active single Kaiser	N/A	N/A	N/A	• Active single Kaiser <sup>2</sup>	• Active single Kaiser	• Active single Kaiser	• Active single Kaiser	N/A
■ Life Insurance (DOH<7/1/84)	• \$2,500 • Up to age 70	• \$2,500 • Up to age 70	None	None	• \$2,500 • Up to age 70	None	• \$2,500 • Up to age 70	• \$2,500 • Up to age 70	• \$2,500 • Up to age 70	None
■ PEHMCA Min	No	No	Yes	Yes	No	No	No	No	No	No
■ Dental & Vision	None	None	None	None	None	None	None	None	None	None
■ Portable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No

<sup>1</sup> 15 NCFA and 1 NCFO active employees opted out of HRA and continue current benefit. All other current actives and future new hires will convert sick leave accrual to individual HRA account.

<sup>2</sup> Per City. MOU does not specify a cap for this group.

***Funding Policy and Actuarial Assumptions***

The City's policy is to fund these benefits on a pre-funded basis. The annual required contribution (ARC) was determined as part of a December 31, 2009, actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3.00 of general inflation increase, and (d) a healthcare trend of declining annual increases ranging from 7.80% to 8.50% in 2011 to 4.50% for years starting 2017. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability amounted to \$10,922,000 and is being amortized as a level percentage of projected payroll using a 30-year amortization period.

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

**NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)**

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2011, the City contributed \$748,867 to current year premiums and pre-funded \$557,643 to CERBT Trust. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below:

	<u>Retiree Health Benefits Internal Service Fund - Governmental Activities</u>
Annual required contribution (ARC) and Annual OPEB cost	\$1,089,000
Amortization on the Net OPEB Liability	(78,000)
Interest on the Net OPEB Liability	<u>96,000</u>
Adjustment to annual required contribution	18,000
Annual Pension Cost	1,107,000
Contributions made:	
City portion of current year premiums paid	(748,867)
Contribution to CERBT Trust	<u>(557,643)</u>
Total Contributions	(1,306,510)
Contributions, in excess of Pension Cost	(199,510)
Net OPEB Obligation at June 30, 2010	<u>1,237,066</u>
Net OPEB Obligation at June 30, 2011	<u><u>\$1,037,556</u></u>

The City's annual required contributions and actual contributions for the years ended June 30, 2011, and the proceeding two years were set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2009	\$1,757,087	\$765,601	44%	\$1,942,747
6/30/2010	1,558,000	2,293,681	147%	1,237,066
6/30/2011	1,089,000	1,306,510	120%	1,037,556

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

**NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)**

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/2006	\$0	\$18,061,000	(\$18,061,000)	0.00%	\$32,027,000	-56.39%
6/30/2008	0	23,680,000	(23,680,000)	0.00%	33,068,000	-71.61%
12/31/2009	0	10,922,000	(10,922,000)	0.00%	25,259,000	-43.24%

**NOTE 14 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City has established a limited risk management program for these types of risks. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program.

Under this program the City is completely self-insured for unemployment insurance and is self-insured for workers' compensation and general liability insurance claims up to \$300,000 per occurrence and \$150,000 per occurrence, respectively. Claims in excess of these amounts are insured through CSAC Excess Insurance Authority up to the statutory limit and \$15,000,000, respectively. This coverage represents an increase from that of the prior year. There were no settlements that exceeded coverage for each of the past three fiscal years. In addition the City has also put in place an insurance policy covering them from earthquake and limited flood disasters in the amount of \$40,000,000 per occurrence, with a deductible of 15%.

The City has retained an independent actuary to perform an analysis of the City's potential liability for the City's self-insured portions of the general liability and workers' compensation programs. The amount recorded as a liability is the specific reserves for individual known claims or lawsuits not covered under the general liability or the workers' compensation insurance program and estimates for incurred but not reported claims. The actuarial analysis uses a rate of 5% for general liability and workers' compensation to discount future investment earnings. Claims liability has been recorded at a 75% confidence level.

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

**NOTE 14 – RISK MANAGEMENT (Continued)**

Below is a reconciliation of changes in the aggregate liabilities for claims for the fiscal years ending June 30, 2010 and 2011:

	<u>2011</u>	<u>2010</u>
Claims liability - beginning	\$4,639,950	\$4,419,000
Changes in estimates for claims in prior years	1,488,960	1,007,681
Payments on claims	<u>(919,910)</u>	<u>(786,731)</u>
Claims liability - ending	<u>\$5,209,000</u>	<u>\$4,639,950</u>
Current portion	<u>\$1,617,000</u>	<u>\$1,362,900</u>

**NOTE 15 – JOINT POWERS AGREEMENT**

On March 16, 1993, the City of Vallejo and the County of Napa formed the South Napa Waste Management Authority (the "Authority"), a separate legal entity, for the purpose of collectively managing the waste disposal needs of the communities they represent. The City of Napa resolved to join the Authority on March 18, 1993. In August, 1993, the City of Napa officially became a member of the Authority. The Authority has purchased the American Canyon Landfill site and accepted responsibility for its closure. State and federal laws and regulations require the Authority to place a final cover on this landfill site and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The City has no ongoing financial interest in the Authority. Closure and related costs will be paid through tipping fees assessed by the Authority at its Waste Transfer Facility. This Transfer Facility serves the waste disposal needs of the communities represented by the Authority. The tipping fees are paid by the citizens of these communities through rate assessments for waste pickup and disposal.

Financial information related to the Authority can be obtained from the South Napa Waste Management Authority located in Napa, California.

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

**NOTE 16 – CONTINGENT LIABILITIES**

The City is involved in several claims and lawsuits. In the opinion of the City's management, it is unlikely that these claims and lawsuits will have a material adverse effect on the accompanying financial statements.

The City has received federal and state grants for specific purposes that are subject to reviews by the grantor agencies. Such reviews could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although City management expects such amounts, if any, to be immaterial.

The City has a number of material construction contracts that are in process or are set to go into production. The total of these contracts as of June 30, 2011, is \$7,333,214.

*Hazardous Materials Investigation:* Toxic substances were discovered on an Agency-owned parking garage property during construction of a new hotel. The Agency has been working with the Regional Water Quality Control Board to define the extent of the problem and develop a monitoring program, while concurrently pursuing a settlement agreement with the polluters of the property. The Agency does not expect its portion of investigation costs, legal costs, and costs associated with any necessary cleanup to be material in relation to the financial statements.

**NOTE 17 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATION REVENUE  
AUGMENTATION FUND (SERAF)**

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment of \$1,369,653 in fiscal year 2009-10, and its second payment in the amount of \$281,987 in fiscal year 2010-11.

**NOTE 18 – SUBSEQUENT EVENT**

In an effort to balance its budget, 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 the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated \$1.7 billion for fiscal year 2012 and an estimated \$400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of ABx1 26.

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

**NOTE 18 –SUBSEQUENT EVENT (Continued)**

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx1 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 26, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller's Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

1. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid, then the City will consider whether it will enact an ordinance to opt-in to the alternative voluntary redevelopment program. If enacted, the City would be required to make annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. The State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be \$1,524,902. The City filed an appeal of that amount in accordance with the provisions of Health and Safety Code Section 34194(b)(2)(L), however the State has denied the City's appeal.

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

**NOTE 18 –SUBSEQUENT EVENT (Continued)**

2. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that ABx1 26 is valid, but ABx1 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of ABx1 26. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.
3. If the Supreme Court determines that both ABx1 26 and ABx1 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of ABx1 26 and ABx1 27.

As of December 20, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above.

<b>NON-MAJOR GOVERNMENTAL FUNDS</b>
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All funds not defined as major funds for the Fund Financial Statements are consolidated in one column entitled "Other Governmental Funds". These non-major funds are identified and included in this supplemental section and includes all the City's Special Revenue Funds and several distinct Capital Project Funds.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Parkway Plaza Low-and-Mod Income Housing**

**Soscol Gateway Low-and-Mod Income Housing**

**Assessment Districts**

**Community Development Block Grant**

**Traffic**

**Parking**

**Cal Home Grant**

**Public Safety Programs**

**Housing Inclusionary Program**

The Debt Service Funds are used to account for the servicing of long-term debt not being financed by business-type funds.

**City Debt Service**

**Parkway Plaza Debt Service**

**Soscol Gateway Debt Service**

The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**State Help Program**

**Street Resurfacing Projects**

**Parkway Plaza Capital Projects**

**Soscol Gateway Capital Projects**

CITY OF NAPA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2011

	SPECIAL REVENUE FUNDS				
	Redevelopment Low- and-Mod			Community Development Block Grant	Traffic
	Parkway Plaza	Soscol Gateway	Assessment Districts		
<b>ASSETS</b>					
Cash and investments	\$15,362	\$288,404	\$4,918,702	\$433,685	\$1,130,255
Restricted cash and investments	435,882				
Receivables:					
Accounts receivable			107,536		
Federal, state and other governments			12,061	536,891	209,999
Interest receivable	3,356	1,128	10,747	1,710	4,515
Loans receivable				1,160,713	
Prepays				126	
Land held for redevelopment					125,691
Total Assets	\$454,600	\$289,532	\$5,049,046	\$2,133,125	\$1,470,460
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities			\$43,539	\$35,037	\$14,527
Vacation and sick leave accrual (Note 11)					
Deposits payable			97,710		
Due to other funds	\$20,922				
Deferred revenue			17,960	1,160,712	
Advances from other funds					
Total Liabilities	20,922		159,209	1,195,749	14,527
<b>Fund balances (Deficit):</b>					
Nonspendable					
Restricted	433,678	\$289,532		937,376	847,810
Committed			4,889,837		608,123
Assigned					
Unassigned					
Total Fund Balances (Deficit)	433,678	289,532	4,889,837	937,376	1,455,933
Total Liabilities and Fund Balances	\$454,600	\$289,532	\$5,049,046	\$2,133,125	\$1,470,460

DEBT SERVICE FUND

Parking	CAL Home Grant	Public Safety Programs	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
\$4,725,352	\$106,661	\$16,033	\$4,501,485		\$2,230,603	\$1,372,121
9,835			1,000		141,905	12,403
18,262	418	63	17,624		25,271	2,654
	289,406		1,562,431			
<u>\$4,753,449</u>	<u>\$396,485</u>	<u>\$16,096</u>	<u>\$6,082,540</u>		<u>\$2,397,779</u>	<u>\$1,387,178</u>
\$43,865			\$16,622			
3,868						
3,662,559					\$655,404	\$157,123
	\$289,406		1,562,431		3,351,725	
					87,291	12,403
						789,724
<u>3,710,292</u>	<u>289,406</u>		<u>1,579,053</u>		<u>4,094,420</u>	<u>959,250</u>
1,043,157	107,079	\$16,096	4,503,487		3,430,006	427,928
					(5,126,647)	
<u>1,043,157</u>	<u>107,079</u>	<u>16,096</u>	<u>4,503,487</u>		<u>(1,696,641)</u>	<u>427,928</u>
<u>\$4,753,449</u>	<u>\$396,485</u>	<u>\$16,096</u>	<u>\$6,082,540</u>		<u>\$2,397,779</u>	<u>\$1,387,178</u>

(Continued)

CITY OF NAPA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS

	CAPITAL PROJECT FUNDS				Total Nonmajor Governmental
	State Help Program	Street Resurfacing	Redevelopment		
			Parkway Plaza	Soscol Gateway	
<b>ASSETS</b>					
Cash and investments		\$398,420		\$43,515	\$17,949,995
Restricted cash and investments			\$3,430,006		6,096,491
Receivables:					
Accounts receivable		14,805			122,341
Federal, state and other governments					924,094
Interest receivable		1,554		2,891	90,193
Loans receivable					3,012,550
Prepays					126
Land held for redevelopment					125,691
Total Assets		<u>\$414,779</u>	<u>\$3,430,006</u>	<u>\$46,406</u>	<u>\$28,321,481</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities		\$159,957	\$50,549	\$5,700	\$369,796
Accounts payable and accrued liabilities					3,868
Deposits payable			1,106		4,573,902
Due to other funds			842,441		4,215,088
Deferred revenue					3,130,203
Advances from other funds					789,724
Total Liabilities		<u>159,957</u>	<u>894,096</u>	<u>5,700</u>	<u>13,082,581</u>
<b>Fund balances (Deficit):</b>					
<b>Nonspendable</b>					
<b>Restricted</b>			2,535,910	40,706	9,066,121
<b>Committed</b>					11,044,604
<b>Assigned</b>		254,822			254,822
<b>Unassigned</b>					(5,126,647)
Total Fund Balances (Deficit)		<u>254,822</u>	<u>2,535,910</u>	<u>40,706</u>	<u>15,238,900</u>
Total Liabilities and Fund Balances		<u>\$414,779</u>	<u>\$3,430,006</u>	<u>\$46,406</u>	<u>\$28,321,481</u>

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CITY OF NAPA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS				
	Redevelopment Low-and-Mod			Community Development	Traffic
	Parkway Plaza	Soscol Gateway	Assessment Districts	Block Grant	
<b>REVENUES</b>					
Taxes			\$403,544		
Intergovernmental				\$1,048,607	\$1,790,259
Charges for services			941,741	462,932	734,413
Investment income	\$13,283	\$6,271	58,814		23,110
Miscellaneous revenues				39,761	15,351
<b>Total Revenues</b>	<b>13,283</b>	<b>6,271</b>	<b>1,404,099</b>	<b>1,551,300</b>	<b>2,563,133</b>
<b>EXPENDITURES</b>					
Current:					
General government			240,841	868,888	
Public works			107,328		
Public safety					342,829
Parks and recreation			84,963		
Redevelopment					
County Fees and pass-through					
Capital outlay			890,395		
Debt service:					
Principal repayment	250,000				
Interest and fiscal charges	166,845				
<b>Total Expenditures</b>	<b>416,845</b>		<b>1,323,527</b>	<b>868,888</b>	<b>342,829</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>(403,562)</b>	<b>6,271</b>	<b>80,572</b>	<b>682,412</b>	<b>2,220,304</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,132,078	114,879	2,178,650		
Transfers (out)	(727,463)	(118,000)	(731,176)	(509,225)	(4,172,584)
<b>Total Other Financing Sources (Uses)</b>	<b>404,615</b>	<b>(3,121)</b>	<b>1,447,474</b>	<b>(509,225)</b>	<b>(4,172,584)</b>
<b>Net Change in Fund Balances</b>	<b>1,053</b>	<b>3,150</b>	<b>1,528,046</b>	<b>173,187</b>	<b>(1,952,280)</b>
<b>Beginning Fund Balances (Deficit), as restated</b>	<b>432,625</b>	<b>286,382</b>	<b>3,361,791</b>	<b>764,189</b>	<b>3,408,213</b>
<b>Ending Fund Balances (Deficit)</b>	<b>\$433,678</b>	<b>\$289,532</b>	<b>\$4,889,837</b>	<b>\$937,376</b>	<b>\$1,455,933</b>

DEBT SERVICE FUNDS

Parking	CAL Home Grant	Public Safety Programs	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
					\$5,660,392	\$574,396
\$386,250	\$300,000		\$380,937		17,708	
99,793	1,486	\$236	95,699		(20,376)	12,918
		15,860			25,000	
<u>486,043</u>	<u>301,486</u>	<u>16,096</u>	<u>476,636</u>		<u>5,682,724</u>	<u>587,314</u>
	221,782		185,455		937,391	
224,790						
112,690					67,692	7,213
						116,331
133,251				\$1,000,000	1,365,000	
					758,219	21,575
<u>470,731</u>	<u>221,782</u>		<u>185,455</u>	<u>1,000,000</u>	<u>3,128,302</u>	<u>145,119</u>
15,312	79,704	16,096	291,181	(1,000,000)	2,554,422	442,195
485,816						789,122
(379,477)			(941)		(9,311,099)	(520,016)
106,339			(941)		(9,311,099)	269,106
121,651	79,704	16,096	290,240	(1,000,000)	(6,756,677)	711,301
921,506	27,375		4,213,247	1,000,000	5,060,036	(283,373)
<u>\$1,043,157</u>	<u>\$107,079</u>	<u>\$16,096</u>	<u>\$4,503,487</u>		<u>(\$1,696,641)</u>	<u>\$427,928</u>

(Continued)

CITY OF NAPA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

	CAPITAL PROJECT FUNDS				
	State Help Program	Street Resurfacing	Redevelopment		Total Nonmajor Governmental
			Parkway Plaza	Soscol Gateway	
REVENUES					
Taxes					\$6,638,332
Intergovernmental		\$48,205			3,187,071
Charges for services			\$1,899		2,925,880
Investment income	\$336	3,483	(8,556)	\$15,310	301,807
Miscellaneous revenues					95,972
<b>Total Revenues</b>	<b>336</b>	<b>51,688</b>	<b>(6,657)</b>	<b>15,310</b>	<b>13,149,062</b>
EXPENDITURES					
Current:					
General government					2,454,357
Public works					107,328
Public safety					567,619
Parks and recreation					197,653
Redevelopment			704,615	194,797	974,317
County Fees and pass-through					116,331
Capital outlay		2,538,775	27,696	697	3,590,814
Debt service:					
Principal repayment	750,000				3,365,000
Interest and fiscal charges	268,978				1,215,617
<b>Total Expenditures</b>	<b>1,018,978</b>	<b>2,538,775</b>	<b>732,311</b>	<b>195,494</b>	<b>12,589,036</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(1,018,642)	(2,487,087)	(738,968)	(180,184)	560,026
OTHER FINANCING SOURCES (USES)					
Transfers in	1,967,427	2,540,492	6,641,863	405,137	16,255,464
Transfers (out)	(200)	(46,676)	(4,446,415)	(842,620)	(21,805,892)
<b>Total Other Financing Sources (Uses)</b>	<b>1,967,227</b>	<b>2,493,816</b>	<b>2,195,448</b>	<b>(437,483)</b>	<b>(5,550,428)</b>
Net Change in Fund Balances	948,585	6,729	1,456,480	(617,667)	(4,990,402)
Beginning Fund Balances (Deficit)	(948,585)	248,093	1,079,430	658,373	20,229,302
Ending Fund Balances (Deficit)	<u>0</u>	<u>\$254,822</u>	<u>\$2,535,910</u>	<u>\$40,706</u>	<u>\$15,238,900</u>

## INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues and expenses of each internal service fund are eliminated by netting them against the operations of the City departments that generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets. However, internal service funds are still presented separately in the Fund Financial Statements.

### **Risk Management Fund**

The Risk Management fund is an internal service fund established to account for resources and uses related to the City's self insurance program. The City's self insurance retention amounts are \$150,000 for general liability claims, \$300,000 for Workers' Compensation claims and 100% of Unemployment Claims. The risk management function is funded by charges to the various City departments.

### **Central Stores Fund**

The Central Stores facility was established to manage inventory for the City's Water, Streets, Electrical, Parks, Building and Facilities Maintenance Divisions, as well as emergency (disaster preparedness) and general office operations. Materials used frequently by City departments or required for emergency repair are ordered and centrally stocked in the warehouse facility located at the Corporation Yard. Consolidation of various departments' usage allows effective cost control and effective quantity control. Staff works together to reduce inventory through effective techniques such as just-in-time delivery, vendor-managed inventory and establishment of correct minimum and maximum stock quantities. Central Stores also handles in-bound and out-bound freight as needed.

### **Fleet Fund**

The Fleet Management Fund provides full-service, lifetime management of the vehicles and equipment used by all City operations. This begins with specification development and replacement scheduling, transitioning to in-service preparation, then performing regular repairs and scheduled maintenance and inspections. Also included in Fleet services are regulatory compliance, fuel data capture, decommissioning, and ultimately the disposal of said assets. The Fleet Management Division also administers the two City motor pools.

### **IT Replacement Fund**

The Information Technology Replacement Fund provides for the replacement of IT and telephone infrastructure throughout General Fund departments as necessary to maintain staff productivity.

### **Post Employment Benefit Fund**

The Post Employment Benefits Fund is established to collect contributions from the General Fund and proprietary funds to cover the cost of retiree benefits for current and past employees. Expenditures from this fund includes payments for current retirees' benefits earned in prior years and contributions to an irrevocable trust to provide resources from which future retiree benefits will be paid.

CITY OF NAPA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Risk Management	Central Stores	Fleet	IT Replacement	Post Employment Benefit	Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and investments	\$5,620,172		\$2,998,593		\$648,621	\$9,267,386
Accounts receivable	26,996		16,305		19,325	62,626
Federal, state and other governments	905,760					905,760
Interest receivable	22,002		11,755		2,490	36,247
Prepaid items	140,426					140,426
Inventory		\$436,456				436,456
<b>Total Current Assets</b>	<b>6,715,356</b>	<b>436,456</b>	<b>3,026,653</b>		<b>670,436</b>	<b>10,848,901</b>
<b>Capital Assets:</b>						
Nondepreciable			968,294			968,294
Depreciable, net		56,102	5,843,288			5,899,390
<b>Total Assets</b>	<b>6,715,356</b>	<b>492,558</b>	<b>9,838,235</b>		<b>670,436</b>	<b>17,716,585</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued liabilities	212,398	24,085	120,615	\$52		357,150
Compensated absences			13,880			13,880
Claims payable	1,617,000					1,617,000
Capital lease			58,709			58,709
Deferred revenue			24,714			24,714
Due to other funds		453,284		4,148		457,432
<b>Total Current Liabilities</b>	<b>1,829,398</b>	<b>477,369</b>	<b>217,918</b>	<b>4,200</b>		<b>2,528,885</b>
<b>Long-Term Obligations:</b>						
Net OPEB Obligation					1,037,556	1,037,556
Compensated absences		3,066	18,255			21,321
Capital lease			160,165			160,165
Claims payable	3,592,000					3,592,000
<b>Total Liabilities</b>	<b>5,421,398</b>	<b>480,435</b>	<b>396,338</b>	<b>4,200</b>	<b>1,037,556</b>	<b>7,339,927</b>
<b>NET ASSETS (DEFICITS)</b>						
Invested in capital assets, net of related debt		56,102	6,592,708			6,648,810
Unrestricted	1,293,958	(43,979)	2,849,189	(4,200)	(367,120)	3,727,848
<b>Total Net Assets</b>	<b>\$1,293,958</b>	<b>\$12,123</b>	<b>\$9,441,897</b>	<b>(\$4,200)</b>	<b>(\$367,120)</b>	<b>\$10,376,658</b>

CITY OF NAPA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011

	Risk Management	Central Stores	Fleet	Information Technology	Post Employment Benefit	Total
<b>OPERATING REVENUES</b>						
Charges for services	\$3,793,624	\$532,400	\$3,120,651	\$129,617	\$1,415,442	\$8,991,734
Total Operating Revenues	<u>3,793,624</u>	<u>532,400</u>	<u>3,120,651</u>	<u>129,617</u>	<u>1,415,442</u>	<u>8,991,734</u>
<b>OPERATING EXPENSES</b>						
Cost of goods sold		451,489				451,489
Employee services and benefits	183,823	104,056	663,303		1,564,471	2,515,653
Materials and services	2,157,005	13,243	1,288,991	135,501		3,594,740
Insurance premiums and claims	988,403					988,403
Depreciation		4,487	880,836			885,323
Total Operating Expenses	<u>3,329,231</u>	<u>573,275</u>	<u>2,833,130</u>	<u>135,501</u>	<u>1,564,471</u>	<u>8,435,608</u>
Operating Income (Loss)	<u>464,393</u>	<u>(40,875)</u>	<u>287,521</u>	<u>(5,884)</u>	<u>(149,029)</u>	<u>556,126</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment income	117,158	(10,560)	69,976	(141)	14,497	190,930
Total Nonoperating Revenues (Expenses)	<u>117,158</u>	<u>(10,560)</u>	<u>69,976</u>	<u>(141)</u>	<u>14,497</u>	<u>190,930</u>
Income (loss) before transfers	<u>581,551</u>	<u>(51,435)</u>	<u>357,497</u>	<u>(6,025)</u>	<u>(134,532)</u>	<u>747,056</u>
<b>TRANSFERS</b>						
Transfers in			979,782			979,782
Transfers (out)	(311,329)	(44,273)	(863,305)			(1,218,907)
Change in Net Assets	270,222	(95,708)	473,974	(6,025)	(134,532)	507,931
Beginning Net Assets (Deficits)	<u>1,023,736</u>	<u>107,831</u>	<u>8,967,923</u>	<u>1,825</u>	<u>(232,588)</u>	<u>9,868,727</u>
Ending Net Assets (Deficits)	<u>\$1,293,958</u>	<u>\$12,123</u>	<u>\$9,441,897</u>	<u>(\$4,200)</u>	<u>(\$367,120)</u>	<u>\$10,376,658</u>

CITY OF NAPA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

	Risk Management	Central Stores	Fleet	Information Technology	OPEB	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$3,266,330	\$532,400	\$3,130,055	\$129,617	\$1,417,849	\$8,476,251
Payments to suppliers	(1,667,628)	(466,784)	(1,249,602)	(187,560)	(47,922)	(3,619,496)
Payments to employees	(1,172,226)	(104,518)	(670,876)		(1,763,981)	(3,711,601)
<b>Cash Flows from Operating Activities</b>	<b>426,476</b>	<b>(38,902)</b>	<b>1,209,577</b>	<b>(57,943)</b>	<b>(394,054)</b>	<b>1,145,154</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating grants received			134			134
Transfers in			979,782			979,782
Transfers out	(311,329)	(44,273)	(863,305)			(1,218,907)
Interfund receipts		93,735		4,148		97,883
<b>Cash Flows from Noncapital Financing Activities</b>	<b>(311,329)</b>	<b>49,462</b>	<b>116,611</b>	<b>4,148</b>		<b>(141,108)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition of capital assets			(2,042,791)			(2,042,791)
<b>Cash Flows from Capital and Related Financing Activities</b>			<b>(2,042,791)</b>			<b>(2,042,791)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest	112,001	(10,560)	68,644	65	15,945	186,095
<b>Cash Flows from Investing Activities</b>	<b>112,001</b>	<b>(10,560)</b>	<b>68,644</b>	<b>65</b>	<b>15,945</b>	<b>186,095</b>
<b>Net Cash Flows</b>	<b>227,148</b>		<b>(647,959)</b>	<b>(53,730)</b>	<b>(378,109)</b>	<b>(852,650)</b>
Cash and cash equivalents at beginning of period	5,393,024		3,646,552	53,730	1,026,730	10,120,036
Cash and cash equivalents at end of period	<u>\$5,620,172</u>		<u>\$2,998,593</u>		<u>\$648,621</u>	<u>\$9,267,386</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>						
Operating income (loss)	\$464,393	(\$40,875)	\$287,521	(\$5,884)	(\$149,029)	\$556,126
<b>Adjustments to reconcile operating income to net cash flows from operating activities:</b>						
Depreciation		4,487	880,836			885,323
<b>Change in assets and liabilities:</b>						
Receivables, net	(527,294)		(15,310)		2,407	(540,197)
Other assets	14,843	(25,134)				(10,291)
Accounts payable and other accrued expenses	(94,516)	23,082	39,389	(52,059)	(47,922)	(132,026)
Net OPEB Obligation					(199,510)	(199,510)
Deferred revenue			24,714			24,714
Claims payable	569,050					569,050
Vacation and sick leave payable		(462)	(7,573)			(8,035)
<b>Cash Flows from Operating Activities</b>	<b>\$426,476</b>	<b>(\$38,902)</b>	<b>\$1,209,577</b>	<b>(\$57,943)</b>	<b>(\$394,054)</b>	<b>\$1,145,154</b>

<b>FIDUCIARY FUNDS</b>
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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  
AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<u>PAYROLL</u>				
Assets				
Cash and investments	\$1,593,179	\$682,179	(\$1,593,179)	\$682,179
Accounts receivable	425		(291)	134
Interest receivable	97,091		(97,091)	
Loan receivable		96,000		96,000
<b>Total Assets</b>	<b>\$1,690,695</b>	<b>\$778,179</b>	<b>(\$1,690,561)</b>	<b>\$778,313</b>
Liabilities				
Accounts payable	\$1,690,695	\$778,179	(\$1,690,561)	\$778,313
<u>NAPA VALLEY CORPORATE PARK ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$648,523		(\$282,190)	\$366,333
Restricted cash and investments	214,506		(1)	214,505
Interest receivable			1,434	1,434
<b>Total Assets</b>	<b>\$863,029</b>		<b>(\$280,757)</b>	<b>\$582,272</b>
Liabilities				
Due to bondholders	\$863,029		(\$280,757)	\$582,272
<u>TOTAL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$2,241,702	\$682,179	(\$1,875,369)	\$1,048,512
Restricted cash and investments	214,506		(1)	214,505
Accounts receivable	425		(291)	134
Interest receivable	97,091		(95,657)	1,434
Loan receivable		96,000		96,000
<b>Total Assets</b>	<b>\$2,553,724</b>	<b>\$778,179</b>	<b>(\$1,971,318)</b>	<b>\$1,360,585</b>
Liabilities				
Accounts payable	\$1,690,695	\$778,179	(\$1,690,561)	\$778,313
Due to bondholders	863,029		(280,757)	582,272
<b>Total Liabilities</b>	<b>\$2,553,724</b>	<b>\$778,179</b>	<b>(\$1,971,318)</b>	<b>\$1,360,585</b>