

CITY OF NAPA, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Prepared by:

Finance Department, City of Napa

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**CITY OF NAPA, CALIFORNIA
 BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

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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, California (City), as of and for the year ended June 30, 2012, 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 | 0.09% | 0.22% | 0.06% | 0.28% |

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, 2012, 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 discussed in Note 17, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Napa Community Development Agency has been dissolved and its assets turned over to and liabilities assumed by the Successor Agency effective January 31, 2012.

In accordance with Government Auditing Standards, we have also issued our report April 24, 2013, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City of Napa's financial statements as a whole. The Supplemental Information is presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.



April 24, 2013

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, 2012.

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, Housing Fund and Golf Course Funds are all major funds.

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 2012 as tourism activity continued to rebound.

The governmental and business-type activities net assets increased by \$15.5 million and \$-1.1 million respectively. The increase in governmental net assets is related to the dissolution of the Redevelopment Agency, as the long term

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

debt for the Redevelopment Area was transferred to the Successor Agency Trust effective February 1, 2012. The reduction of assets for business type activities was related to the completion of some significant capital activity (e.g. Water Main Replacements). The City's governmental unrestricted balance decreased by \$3.4 million during the year, while the Business type restricted balance available for capital projects and housing decreased by \$3.7 million. Both of these decreases were impacted by an increased in restricted balances as well as an increase in the balance invested in capital assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The total net assets of the City as of June 30, 2011 and 2012 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 Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
| | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 |
| Assets: | | | | | | |
| Cash and investments | \$ 70,310,418 | \$ 68,328,581 | \$ 41,448,766 | \$ 34,513,753 | \$ 111,759,184 | \$ 102,842,334 |
| Receivables, other current assets | 33,349,253 | 31,402,799 | 17,005,180 | 18,599,916 | 50,354,433 | 50,002,715 |
| Capital assets | 357,021,623 | 356,475,133 | 133,951,414 | 135,954,457 | 490,973,037 | 492,429,590 |
| Total assets | 460,681,294 | 456,206,513 | 192,405,360 | 189,068,126 | 653,086,654 | 645,274,639 |
| Liabilities: | | | | | | |
| Long-term debt | 26,815,728 | 164,239 | 79,395,602 | 76,500,112 | 106,211,330 | 76,664,351 |
| Other liabilities | 12,804,616 | 19,432,968 | 5,474,484 | 6,123,157 | 18,279,100 | 25,556,125 |
| Total liabilities | 39,620,344 | 19,597,207 | 84,870,086 | 82,623,269 | 124,490,430 | 102,220,476 |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | 338,197,835 | 356,310,894 | 60,887,473 | 62,372,154 | 399,085,308 | 418,683,048 |
| Restricted | 33,576,180 | 34,398,052 | | 1,077,381 | 33,576,180 | 35,475,433 |
| Unrestricted | 49,286,935 | 45,900,360 | 46,647,801 | 42,995,322 | 95,934,736 | 88,895,682 |
| Total net assets | \$ 421,060,950 | \$ 436,609,306 | \$ 107,535,274 | \$ 106,444,857 | \$ 528,596,224 | \$ 543,054,163 |

Cash and investments - The City's cash and investment portfolio decreased by \$9.0 million to \$102.8 million during the year due primarily to decreased cash and investments in Business-type activities, related to the completion of construction of the new water treatment plant in the water enterprise fund. The cash balance comprises \$57.0 million held by the Trustees; of which \$26.6 million is held for governmental programs or designated for other budgetary commitments and \$30.4 million held for enterprise operations. Additionally funds held in the Local Agency Investment Fund totaled \$45.2 million and the Cash in Banks or on hand totaled \$6.2 million.

Receivables and other current assets - The City's other current assets decreased by \$1.9 million to \$31.4 million, as a significant number of deferred revenue charges relating to development projects were received in fiscal 2012.

Capital assets - The City's capital assets decreased in governmental activities by \$0.5 million during the year. The decrease is primarily due to depreciation of current assets outpacing the completion of new projects. The City's business-type capital assets increased by \$2.0 million during the year, primarily due to the completion of a number of main replacement projects and other capital projects.

Long-term debt - The long-term debt of \$76.7 million includes the City's two major revenue bonds issued for water, and solid waste, as well as other various smaller notes and leases. The long term debt balance decreased by \$29.5 million due primarily to the dissolution of the Redevelopment Agency (effective January 31, 2012) resulting from the passage of Senate Bill X-1a. The revenue bonds and associated debt were transferred to the Private Purpose Trust Fund effective February 1, 2012. Additionally, we continue the reduction of long term debt in both governmental activities and business activities through the absence of new debt issues in the current year and timely payment on outstanding issues.

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets - The City's total net assets increased by \$14.5 million during the fiscal year, to \$543.1 million. The governmental net asset balance of \$436.6 million includes \$356.3 million invested in capital assets net of related debt, \$34.4 million restricted funds available for capital projects and housing programs, and a remaining balance of \$45.9 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 liabilities from the dissolution of the Redevelopment Agency.

Government-wide Activities

The changes in the City's government-wide net assets as of June 30, 2012 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, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 10,494,404 | \$ 11,203,182 | \$ 49,267,770 | \$ 49,441,445 | \$ 59,762,174 | \$ 60,644,627 |
| Operating grants and contributions | 4,776,296 | 4,505,456 | 11,611,173 | 11,354,156 | 16,387,469 | 15,859,612 |
| Capital grants and contributions | 9,322,450 | 3,662,978 | 322,355 | 352,060 | 9,644,805 | 4,015,038 |
| General revenues: | | | | | | |
| Property, sales, and other taxes | 57,435,343 | 50,722,395 | | | 57,435,343 | 50,722,395 |
| Other | 4,299,078 | 4,100,734 | 840,949 | 536,877 | 5,140,027 | 4,637,611 |
| Total revenues | 86,327,571 | 74,194,745 | 62,042,247 | 61,684,538 | 148,369,818 | 135,879,283 |
| Expenses: | | | | | | |
| Governmental | | | | | | |
| General government | 16,605,269 | 19,663,751 | | | 16,605,269 | 19,663,751 |
| Public safety | 29,080,513 | 32,266,109 | | | 29,080,513 | 32,266,109 |
| Public works | 20,431,098 | 18,200,918 | | | 20,431,098 | 18,200,918 |
| Park and recreation | 7,241,395 | 6,733,914 | | | 7,241,395 | 6,733,914 |
| Community | | | | | | |
| Development | 1,119,365 | 491,587 | | | 1,119,365 | 491,587 |
| Redevelopment | 1,363,123 | 580,418 | | | 1,363,123 | 580,418 |
| Interest on long term debt | 985,500 | 937,221 | | | 985,500 | 937,221 |
| Business-type activities: | | | | | | |
| Water | | | 19,493,733 | 21,627,236 | 19,493,733 | 21,627,236 |
| Garbage | | | 19,747,192 | 20,505,184 | 19,747,192 | 20,505,184 |
| Golf course | | | 1,778,218 | 1,783,483 | 1,778,218 | 1,783,483 |
| Housing | | | 11,367,711 | 14,681,226 | 11,367,711 | 14,681,226 |
| Total expenses | 76,826,263 | 78,873,917 | 52,386,854 | 58,597,129 | 129,213,117 | 137,471,046 |
| Excess before transfers | 9,501,308 | (4,679,172) | 9,655,393 | 3,087,409 | 19,156,701 | (1,591,765) |
| Special Items | | 16,049,702 | | | | 16,049,702 |
| Transfers | 3,503,856 | 4,177,826 | (3,503,856) | (4,177,826) | | |
| Changes in net assets | \$ 13,005,164 | \$ 15,548,356 | \$ 6,151,537 | \$ (1,090,417) | \$ 19,156,701 | \$ 14,457,937 |

The City's net assets decreased by \$4.7 million during the year, as measured on the accrual basis of accounting. Governmental revenues decreased 14.1% (\$12.1 million) primarily due to the state ordered dissolution of the Redevelopment Agency, effective February 1, 2012. Governmental expenses increased from the prior fiscal year by \$2.0 million to \$78.9 million due to increased public safety and general government expenditures. The business-type revenues decreased slightly by \$0.4 million to \$61.7 million while expenses increased by \$6.2 million to \$58.6 million. After transfers, the change in business-type net assets amounted to \$-1.1 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 \$63.1 million of revenues, an increase of \$3.4 million from the previous year. Of this amount, \$1.9 million was an increase in taxes (property, sales, transient occupancy taxes), \$0.7 million increase in intergovernmental, a \$0.4 million increase in Licenses, permits and fees, and \$0.6 million increase each in Charges for Services. These increases were partially offset by a \$0.2 million decrease in miscellaneous revenues.

General Fund expenditures amounted to \$63.9 million, which was an increase of \$3.7 million from the prior year. General Government saw the largest increase in expenditures (\$3.1 million) due in part as response to the \$0.4 million increase in permits and fees (e.g. construction / building permits). Additionally, due to the dissolution of the Redevelopment agency, a number of positions that had previously been supporting redevelopment activity were funded for the last five months of the year from the General Fund.

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 \$2.5 million, an increase of \$0.5 million from the prior year caused primarily by the increase in development over the prior year, signaling continued economic recovery. During the fiscal year, the fund contributed \$0.7 million to the City's Capital Projects Fund through transfers, with additional work scheduled for fiscal 2013.

City Capital Projects Fund - The City's capital program saw a decline in expenditures of nearly 36% due to the cyclical construction activity of capital projects. In total, \$7.5 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, and completed in fiscal 2011. Fund equity includes reserves for capital replacement and water supply reserve (\$0.4 million each) as well as an emergency reserve for the water utility (\$1.0 million).

Materials Diversion Fund - The materials diversion 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 \$20.2 million in operating expenses, \$2.4 million was for tipping fees. Fund equity includes reserves for rate stabilization (\$0.8 million) and capital replacement/maintenance (\$1.5 million).

Golf Course Fund - The City's Golf Course is located at Kennedy Park. Fiscal year 2012, due in large part to the slow rebound from the general economic downturn (experienced by many golf courses), continued to have fiscal challenges. Due to a mild winter the drop in ending net assets was only \$0.11 million (as compared to \$0.28 million loss in fiscal 2011).

Housing (Enterprise) Fund – The Housing Authority funds saw a decrease in ending net assets of \$2.2 million due to the suspension of the 20% Low/Moderate Income Housing contribution from the Redevelopment Agency upon its dissolution effective February 1, 2012.

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2012, the City had invested \$492 million in capital assets, net of accumulated depreciation; an increase of 0.3% from the prior year. The \$1.5 million increase is the net result of an increase of \$11.9 million in capital assets not subject to depreciation (most notably construction in progress on over 50 other projects including Riverfront Green, and Redwood Road Erosion Repair (Lynn Drive), as well as other buildings, streets, sidewalks, bridges, and parks projects), and \$9.3 million in other asset additions (most notably main replacements in the Water Fund) offset by depreciation of the city's other capital assets, and transfer of assets to the Successor Agency. A summary of the City's capital assets net of depreciation at June 30, 2011 and 2012 is presented in Table 3.

Table 3
Capital Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 |
| Capital assets not subject to depreciation: | | | | | | |
| Land | \$ 24,503,141 | \$ 24,772,661 | \$ 5,506,614 | \$ 5,506,614 | \$ 30,009,755 | \$ 30,279,275 |
| Construction in progress | 86,118,810 | 92,319,817 | 46,544,833 | 51,925,179 | 132,663,643 | 144,244,996 |
| Other capital assets: | | | | | | |
| Building and improvements | 11,767,872 | 11,322,202 | 20,452,402 | 19,402,832 | 32,220,274 | 30,725,034 |
| Equipment | 545,642 | 419,787 | 2,931,060 | 2,776,176 | 3,476,702 | 3,195,963 |
| Vehicles and rentals | 5,724,045 | 7,101,589 | | | 5,724,045 | 7,101,589 |
| Infrastructure: | | | | | | |
| Transmission and distribution systems | | | 58,516,505 | 56,343,656 | 58,516,505 | 56,343,656 |
| Bridges | 19,059,019 | 18,684,797 | | | 19,059,019 | 18,684,797 |
| Roads | 192,728,556 | 185,648,614 | | | 192,728,556 | 185,648,614 |
| Curb/gutter/sidewalks | 4,690,145 | 4,735,288 | | | 4,690,145 | 4,735,288 |
| Traffic signals | 3,610,403 | 3,503,864 | | | 3,610,403 | 3,503,864 |
| Stormwater | 4,016,463 | 3,961,714 | | | 4,016,463 | 3,961,714 |
| Park improvements | 2,930,231 | 2,714,315 | | | 2,930,231 | 2,714,315 |
| Underground utilities | 58,529 | 56,910 | | | 58,529 | 56,910 |
| Street Lights | 1,268,767 | 1,233,575 | | | 1,268,767 | 1,233,575 |
| Total Capital Assets | \$ 357,021,623 | \$ 356,475,133 | \$ 133,951,414 | \$ 135,954,457 | \$ 490,973,037 | \$ 492,429,590 |

DEBT ADMINISTRATION

The City uses a variety of indebtedness to finance various capital acquisitions and improvements. At June 30, 2012, the City's long-term debt outstanding was \$76.7 million. The following table provides a schedule of the City's long-term debt obligations at June 30, 2011 and 2012. As shown in the table below, the significant reduction in debt from fiscal 2011 and 2012 was the re-assignment of the Redevelopment tax allocation bonds to the private purpose trust. This re-assignment was the result of the dissolution of the Redevelopment Agency effective February 1, 2012.

Table 4
Long Term Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|-------------------|--------------------------|----------------------|----------------------|----------------------|
| | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 |
| Redevelopment tax allocation bonds | \$ 19,020,000 | \$ - | | | \$ 19,020,000 | \$ - |
| Water revenue bonds | | | \$ 47,417,837 | \$ 46,276,260 | 47,417,837 | 46,276,260 |
| Garbage revenue bonds | | | 4,388,552 | 3,980,668 | 4,388,552 | 3,980,668 |
| Notes payable | | | 6,535,108 | 6,154,140 | 6,535,108 | 6,154,140 |
| Capital lease obligations | 218,874 | 164,239 | 20,700,108 | 20,089,044 | 20,918,982 | 20,253,283 |
| Total Long Term Debt | \$ 19,238,874 | \$ 164,239 | \$ 79,041,605 | \$ 76,500,112 | \$ 98,280,479 | \$ 76,664,351 |

**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 2011-12 fiscal year, the City continued to feel the impact of the economic recovery to the national financial downturn. The City experienced continued growth in Property and Sales tax, with a more significant rebound of over 16% 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 steady economic recovery. Recent projections show increases in the City's major sources of revenue over the next several years. Unfortunately, the fiscal uncertainty at the State and National levels is cause for concern as world financial markets are unsteady, and we near the "fiscal cliff" in January, 2013. The City of Napa continues to explore alternatives for cost reduction and improvement of operational efficiency. Numerous cost saving measures have been implemented including employee concessions to help offset the impact of continued increases in healthcare and retirement costs for the City's workforce. The City of Napa Redevelopment Agency, along with all of the Redevelopment Agencies across the state was 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, 2012

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and investments (Note 3) | \$68,328,581 | \$30,410,234 | \$98,738,815 |
| Restricted cash and investments (Note 3) | | 4,103,519 | 4,103,519 |
| Receivables | | | |
| Accounts | 6,039,277 | 7,649,114 | 13,688,391 |
| Federal, state and other governments | 11,143,766 | 841,906 | 11,985,672 |
| Interest receivable | 185,640 | 105,436 | 291,076 |
| Loans receivable (Note 5) | 11,682,827 | 11,523,770 | 23,206,597 |
| Land held for redevelopment (Note 6) | 125,691 | | 125,691 |
| Internal balances (Note 4) | 1,626,181 | (1,626,181) | |
| Other assets | 599,417 | 105,871 | 705,288 |
| Capital assets (Note 7) | | | |
| Nondepreciable | 117,092,478 | 57,431,793 | 174,524,271 |
| Depreciable | 239,382,655 | 78,522,664 | 317,905,319 |
| Total Assets | 456,206,513 | 189,068,126 | 645,274,639 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 4,630,226 | 4,078,669 | 8,708,895 |
| Interest payable | | 503,558 | 503,558 |
| Deposits payable | 4,527,846 | 1,098,528 | 5,626,374 |
| Unearned revenue | 2,241,954 | | 2,241,954 |
| Net OPEB Obligation (Note 13) | 497,475 | | 497,475 |
| Compensated absences (Note 11) | | | |
| Due within one year | 29,030 | 127,371 | 156,401 |
| Due in more than one year | 2,330,437 | 315,031 | 2,645,468 |
| Claims payable (Note 14) | | | |
| Due within one year | 1,641,750 | | 1,641,750 |
| Due in more than one year | 3,534,250 | | 3,534,250 |
| Long-term debt (Note 9) | | | |
| Due within one year | 61,902 | 2,622,118 | 2,684,020 |
| Due in more than one year | 102,337 | 73,877,994 | 73,980,331 |
| Total Liabilities | 19,597,207 | 82,623,269 | 102,220,476 |
| NET ASSETS (Note 11) | | | |
| Invested in capital assets, net of related debt | 356,310,894 | 62,372,154 | 418,683,048 |
| Restricted for: | | | |
| Capital projects | 28,551,176 | | 28,551,176 |
| Housing grant programs | 5,846,876 | 1,077,381 | 6,924,257 |
| Unrestricted | 45,900,360 | 42,995,322 | 88,895,682 |
| Total Net Assets | \$436,609,306 | \$106,444,857 | \$543,054,163 |

See accompanying notes to financial statements

CITY OF NAPA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

| 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 | \$19,663,751 | \$3,187,713 | \$987,687 | | (\$15,488,351) | | (\$15,488,351) |
| Public safety | 32,266,109 | 3,922,642 | 739,343 | | (27,604,124) | | (27,604,124) |
| Public works | 18,200,918 | 2,545,943 | 1,166,645 | \$3,657,978 | (10,830,352) | | (10,830,352) |
| Parks and recreation | 6,733,914 | 1,540,778 | 286,675 | 5,000 | (4,901,461) | | (4,901,461) |
| Community Development | 491,587 | 5,000 | 1,325,106 | | 838,519 | | 838,519 |
| Redevelopment | 580,420 | 1,106 | | | (579,314) | | (579,314) |
| Interest on long-term debt | 937,221 | | | | (937,221) | | (937,221) |
| Total Governmental Activities | 78,873,919 | 11,203,182 | 4,505,456 | 3,662,978 | (59,502,303) | | (59,502,303) |
| Business-type Activities: | | | | | | | |
| Water Utility | 21,627,236 | 22,160,235 | 6,101 | 352,060 | | \$891,160 | 891,160 |
| Garbage | 20,505,184 | 24,609,389 | | | | 4,104,205 | 4,104,205 |
| Golf Course | 1,783,483 | 1,494,876 | 85,000 | | | (203,607) | (203,607) |
| Housing | 14,681,226 | 1,176,945 | 11,263,055 | | | (2,241,226) | (2,241,226) |
| Total Business-type Activities | 58,597,129 | 49,441,445 | 11,354,156 | 352,060 | | 2,550,532 | 2,550,532 |
| Total | \$137,471,048 | \$60,644,627 | \$15,859,612 | \$4,015,038 | (59,502,303) | 2,550,532 | (56,951,771) |
| General revenues: | | | | | | | |
| Taxes | | | | | | | |
| Property | | | | | 21,393,744 | | 21,393,744 |
| Redevelopment tax increment | | | | | 3,056,684 | | 3,056,684 |
| Franchises | | | | | 1,747,943 | | 1,747,943 |
| Sales taxes | | | | | 13,019,214 | | 13,019,214 |
| Transient occupancy | | | | | 11,504,810 | | 11,504,810 |
| Motor vehicle license fees | | | | | 38,980 | | 38,980 |
| Business license | | | | | 2,660,959 | | 2,660,959 |
| Investment earnings | | | | | 1,400,795 | 536,877 | 1,937,672 |
| EXTRAORDINARY ITEMS (Note 17) | | | | | | | |
| Assets transferred to/liabilities assumed by Successor Agency | | | | | 16,049,704 | | 16,049,704 |
| Transfers (Note 4A) | | | | | 4,177,826 | (4,177,826) | |
| Total general revenues, extraordinary items and transfers | | | | | 75,050,659 | (3,640,949) | 71,409,710 |
| Change in Net Assets | | | | | 15,548,356 | (1,090,417) | 14,457,939 |
| Net Assets-Beginning | | | | | 421,060,950 | 107,535,274 | 528,596,224 |
| Net Assets-Ending | | | | | \$436,609,306 | \$106,444,857 | \$543,054,163 |

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 2012. 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 SPECIAL REVENUE 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.

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, 2012

| | General | Development Fees | Home Program | City Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and investments (Note 3) | \$17,074,000 | \$19,379,426 | | \$5,708,073 | \$16,686,804 | \$58,848,303 |
| Restricted cash and investments (Note 3) | | | | | | |
| Receivables, net: | | | | | | |
| Accounts | 4,282,628 | 391,217 | | | 489,425 | 5,163,270 |
| Federal, state and other governments | 1,354,010 | | \$143,513 | 8,510,454 | 230,029 | 10,238,006 |
| Interest receivable | 53,176 | 57,033 | | | 47,818 | 158,027 |
| Loans receivable (Note 5) | 1,500,000 | | 6,997,546 | | 3,185,281 | 11,682,827 |
| Due from other funds (Note 4) | 1,010,708 | | | 44,862 | | 1,055,570 |
| Prepaid items | 26,294 | | | | | 26,294 |
| Advances to other funds (Note 4) | 482,850 | 183,600 | | 675,000 | | 1,341,450 |
| Land held for redevelopment (Note 6) | | | | | 125,691 | 125,691 |
| Total Assets | \$25,783,666 | \$20,011,276 | \$7,141,059 | \$14,938,389 | \$20,765,048 | \$88,639,438 |
| LIABILITIES | | | | | | |
| Accounts payable and accrued liabilities | \$2,870,059 | \$133 | \$1,026 | \$454,550 | \$551,706 | \$3,877,474 |
| Vacation and sick leave accrual (Note 11) | 11,202 | | | | 5,619 | 16,821 |
| Deposits payable | 629,134 | | | 132,288 | 3,766,424 | 4,527,846 |
| Due to other funds (Note 4) | | 45,140 | 657 | | | 45,797 |
| Deferred revenue | 1,849,395 | 391,217 | 6,997,546 | 7,445,785 | 3,216,764 | 19,900,707 |
| Total Liabilities | 5,359,790 | 436,490 | 6,999,229 | 8,032,623 | 7,540,513 | 28,368,645 |
| FUND BALANCES (Note 11) | | | | | | |
| Nonspendable | 2,009,144 | 183,600 | | 675,000 | 125,691 | 2,993,435 |
| Restricted | 19,690 | 19,391,186 | 141,830 | 270,173 | 2,102,444 | 21,925,323 |
| Committed | | | | 5,960,593 | 10,996,400 | 16,956,993 |
| Assigned | 9,047,659 | | | | | 9,047,659 |
| Unassigned | 9,347,383 | | | | | 9,347,383 |
| Total Fund Balances | 20,423,876 | 19,574,786 | 141,830 | 6,905,766 | 13,224,535 | 60,270,793 |
| Total Liabilities and Fund Balances | \$25,783,666 | \$20,011,276 | \$7,141,059 | \$14,938,389 | \$20,765,048 | \$88,639,438 |

See accompanying notes to financial statements

CITY OF NAPA
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | | |
|--|-------------|---------------|
| Fund balances, as reported on the Governmental Funds Balance Sheet | | \$60,270,793 |
| <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. | | 349,116,263 |
| <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 | | 17,658,753 |
| <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. | | 11,868,925 |
| <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: | | |
| Compensated absences | (2,305,428) | (2,305,428) |
| Net assets of Governmental Activities, as reported on the Statement of Net Assets | | \$436,609,306 |

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, 2012

| | General | Development Fees | Home Program | City Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|------------------|-----------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes | \$38,963,963 | | | | \$3,518,895 | \$42,482,858 |
| Licenses, permits and fees | 4,083,811 | | | | | 4,083,811 |
| Intergovernmental | 14,551,638 | | \$412,213 | \$3,491,593 | 3,096,023 | 21,551,467 |
| Charges for services | 5,219,838 | \$2,238,643 | 85,884 | 25,428 | 2,377,237 | 9,947,030 |
| Investment income | 216,334 | 227,386 | 1,728 | | 268,477 | 713,925 |
| Miscellaneous revenues | 29,052 | 5,925 | | 22,869 | 9,036 | 66,882 |
| Total Revenues | 63,064,636 | 2,471,954 | 499,825 | 3,539,890 | 9,269,668 | 78,845,973 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 17,240,747 | | | | 2,115,420 | 19,356,167 |
| Public safety | 33,388,331 | | | | 620,473 | 34,008,804 |
| Public works | 6,773,168 | | | | 107,257 | 6,880,425 |
| Parks and recreation | 6,428,650 | | | | 169,808 | 6,598,458 |
| Community development Redevelopment | | 2,996 | 488,583 | | 370,838 | 491,579 370,838 |
| County fees and pass-through | | | | | 123,842 | 123,842 |
| Capital outlay | 95,793 | | | 7,452,747 | 3,285,076 | 10,833,616 |
| Debt service: | | | | | | |
| Principal | | | | | 1,730,000 | 1,730,000 |
| Interest and fiscal charges | | | | | 803,648 | 803,648 |
| Total Expenditures | 63,926,689 | 2,996 | 488,583 | 7,452,747 | 9,326,362 | 81,197,377 |
| Excess (Deficiency) of Revenues over (under) Expenditures | (862,053) | 2,468,958 | 11,242 | (3,912,857) | (56,694) | (2,351,404) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in (Note 4A) | 3,986,398 | 160 | | 3,034,123 | 4,801,148 | 11,821,829 |
| Transfers (out) (Note 4A) | (901,789) | (661,298) | (4,716) | (152,303) | (5,560,037) | (7,280,143) |
| Total Other Financing Sources (Uses) | 3,084,609 | (661,138) | (4,716) | 2,881,820 | (758,889) | 4,541,686 |
| NET CHANGE IN FUND BALANCE BEFORE EXTRAORDINARY ITEM | 2,222,556 | 1,807,820 | 6,526 | (1,031,037) | (815,583) | 2,190,282 |
| EXTRAORDINARY ITEMS (Note 17) | | | | | | |
| Assets transferred to/liabilities assumed by Successor Agency | | | | | (1,198,782) | (1,198,782) |
| Net Change in Fund Balances | 2,222,556 | 1,807,820 | 6,526 | (1,031,037) | (2,014,365) | 991,500 |
| Beginning Fund Balances | 18,201,320 | 17,766,966 | 135,304 | 7,936,803 | 15,238,900 | 59,279,293 |
| Ending Fund Balances | \$20,423,876 | \$19,574,786 | \$141,830 | \$6,905,766 | \$13,224,535 | \$60,270,793 |

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, 2012

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance \$991,500

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 | 10,833,616 | |
| Non capitalized capital outlay expenditures were reclassified to various governmental activities | 58,448 | |
| Net retirements are deducted from fund balance | 155,801 | |
| Depreciation expense is deducted from fund balance (Depreciation expense is net of internal service fund depreciation of \$978,758 which has already been allocated to serviced funds) | (12,044,029) | |
| Capital assets assumed by the Successor Agency | <u>(41,512)</u> | (1,037,676) |

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 | (4,779,677) |
|---|-------------|

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. | 1,492,267 |
|--|-----------|

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 | 1,730,000 | |
| Net, reduction in vacation and sick leave payable | (4,485) | |
| Amortization of bond discount and costs | (415,086) | |
| Reduction in interest payable, net | 281,513 | |
| Long-term debt assumed by the Successor Agency | <u>17,290,000</u> | <u>18,881,942</u> |

| | |
|---|----------------------------|
| Change in Net Assets of Governmental Activities, as reported on the Statement of Activities | <u><u>\$15,548,356</u></u> |
|---|----------------------------|

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, 2012

| | <u>Budgeted Amounts</u> | | Actual Amounts Budgetary Basis | Variance with Final Budget Positive (Negative) |
|--------------------------------------|-------------------------|----------------------|-----------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Beginning Fund Balance | | | <u>\$18,201,320</u> | |
| Revenues: | | | | |
| Taxes: | \$36,511,381 | \$37,322,565 | 38,963,963 | \$1,641,398 |
| Licenses, permits and fees | 3,672,500 | 4,022,500 | 4,083,811 | 61,311 |
| Intergovernmental revenues | 12,343,293 | 14,180,596 | 14,551,638 | 371,042 |
| Charges for services | 4,616,811 | 6,221,650 | 5,219,838 | (1,001,812) |
| Interest on investments | 200,000 | 150,000 | 216,334 | 66,334 |
| Miscellaneous revenues | <u>606,060</u> | <u>553,843</u> | <u>29,052</u> | <u>(524,791)</u> |
| Total Revenues | <u>57,950,045</u> | <u>62,451,154</u> | <u>63,064,636</u> | <u>613,482</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 14,319,306 | 17,988,394 | 17,240,747 | 747,647 |
| Public safety | 34,351,036 | 35,391,625 | 33,388,331 | 2,003,294 |
| Public works | 7,090,501 | 7,849,282 | 6,773,168 | 1,076,114 |
| Parks and recreation | 6,587,373 | 6,659,991 | 6,428,650 | 231,341 |
| Capital outlay | <u>120,100</u> | <u>159,144</u> | <u>95,793</u> | <u>63,351</u> |
| Total Expenditures | <u>62,468,316</u> | <u>68,048,436</u> | <u>63,926,689</u> | <u>4,121,747</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 4,039,265 | 4,282,584 | 3,986,398 | (296,186) |
| Transfers (out) | <u>(719,827)</u> | <u>(2,768,280)</u> | <u>(901,789)</u> | <u>1,866,491</u> |
| Total Other Financing Sources (Uses) | <u>3,319,438</u> | <u>1,514,304</u> | <u>3,084,609</u> | <u>1,570,305</u> |
| Net Change in Fund Balances | <u>(\$1,198,833)</u> | <u>(\$4,082,978)</u> | <u>2,222,556</u> | <u>\$6,305,534</u> |
| Ending Fund Balance | | | <u><u>\$20,423,876</u></u> | |

See accompanying notes to financial statements

CITY OF NAPA
DEVELOPMENT FEES SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts Budgetary Basis</u> | Variance with Final Budget |
|--------------------------------------|-------------------------|----------------------|---|-------------------------------|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) |
| Beginning Fund Balance | | | <u>\$17,766,966</u> | |
| Revenues: | | | | |
| Charges for services | \$427,160 | \$433,085 | 2,238,643 | \$1,805,558 |
| Investment income | 255,073 | 255,073 | 227,386 | (27,687) |
| Miscellaneous | | 5,925 | 5,925 | |
| | | | <u>2,471,954</u> | |
| Total Revenues | <u>682,233</u> | <u>694,083</u> | | <u>1,777,871</u> |
| Expenditures: | | | | |
| Current | | | | |
| Community development | 25,000 | 25,000 | 2,996 | 22,004 |
| Parks and recreation | 40,000 | 40,000 | | 40,000 |
| | | | <u>2,996</u> | |
| Total Expenditures | <u>65,000</u> | <u>65,000</u> | | <u>62,004</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | | | 160 | 160 |
| Transfers (out) | (1,892,000) | (4,585,094) | (661,298) | 3,923,796 |
| | | | <u>(661,138)</u> | |
| Total Other Financing Sources (Uses) | <u>(1,892,000)</u> | <u>(4,585,094)</u> | | <u>3,923,956</u> |
| Net Change in Fund Balances | <u>(\$1,274,767)</u> | <u>(\$3,956,011)</u> | <u>1,807,820</u> | <u>\$5,639,823</u> |
| Ending Fund Balance (Deficit) | | | <u>\$19,574,786</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, 2012

| | <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>\$135,304</u> | |
| Revenues: | | | | |
| Intergovernmental revenues | \$436,000 | \$436,000 | 412,213 | (\$23,787) |
| Charges for services | 116,217 | 116,217 | 85,884 | (30,333) |
| Investment income | | | 1,728 | 1,728 |
| Total Revenues | <u>552,217</u> | <u>552,217</u> | <u>499,825</u> | <u>(52,392)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Community development | 546,802 | 546,419 | 488,583 | 57,836 |
| Total Expenditures | <u>546,802</u> | <u>546,419</u> | <u>488,583</u> | <u>57,836</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers (out) | <u>(4,716)</u> | <u>(4,716)</u> | <u>(4,716)</u> | |
| Total Other Financing Sources (Uses) | <u>(4,716)</u> | <u>(4,716)</u> | <u>(4,716)</u> | |
| Net Change in Fund Balances | <u>\$699</u> | <u>\$1,082</u> | <u>6,526</u> | <u>\$5,444</u> |
| Ending Fund Balance (Deficit) | | | <u>\$141,830</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, 2012

| | 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) | \$14,219,450 | \$10,584,321 | \$38,104 | \$5,568,359 | \$30,410,234 | \$9,480,278 |
| Receivables, net: | | | | | | |
| Accounts | 4,765,608 | 2,826,013 | 171 | 57,322 | 7,649,114 | 876,007 |
| Federal, state and other governments | 829,112 | 4,800 | | 7,994 | 841,906 | 905,760 |
| Interest receivable | 38,768 | 47,088 | | 19,580 | 105,436 | 27,613 |
| Prepaid items | | | 24,623 | | 24,623 | 137,247 |
| Inventory (Note 1G) | | | 81,248 | | 81,248 | 435,876 |
| Total Current Assets | 19,852,938 | 13,462,222 | 144,146 | 5,653,255 | 39,112,561 | 11,862,781 |
| Noncurrent Assets: | | | | | | |
| Restricted cash and investments (Note 3) | 469,361 | 2,448,448 | | 1,185,710 | 4,103,519 | |
| Loans receivable (Note 5) | 1,161,299 | | | 10,362,471 | 11,523,770 | |
| Capital assets (Note 7): | | | | | | |
| Nondepreciable | 50,964,095 | 4,270,727 | 420,560 | 1,776,411 | 57,431,793 | 112,694 |
| Depreciable, net | 70,916,999 | 5,427,526 | 655,329 | 1,522,810 | 78,522,664 | 7,246,176 |
| Total Noncurrent Assets | 123,511,754 | 12,146,701 | 1,075,889 | 14,847,402 | 151,581,746 | 7,358,870 |
| TOTAL ASSETS | 143,364,692 | 25,608,923 | 1,220,035 | 20,500,657 | 190,694,307 | 19,221,651 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | 2,260,768 | 1,637,065 | 119,146 | 61,690 | 4,078,669 | 752,752 |
| Compensated absences (Note 11) | 90,136 | 3,612 | | 33,623 | 127,371 | 12,209 |
| Claims payable (Note 14) | | | | | | 1,641,750 |
| Accrued interest | 406,409 | 97,149 | | | 503,558 | |
| Deposits payable | 641,266 | 269,609 | 75,424 | 22,996 | 1,009,295 | |
| Due to other funds (Note 4) | | | 284,731 | | 284,731 | 725,042 |
| Long-term debt (Note 9) | | | | | | |
| Revenue bonds | 1,140,000 | 450,000 | | | 1,590,000 | |
| Notes payable | 351,632 | | | 41,810 | 393,442 | |
| Capital lease obligations | 608,935 | | 29,741 | | 638,676 | 61,902 |
| Total Current Liabilities | 5,499,146 | 2,457,435 | 509,042 | 160,119 | 8,625,742 | 3,193,655 |
| Long-term Liabilities: | | | | | | |
| Compensated absences (Note 11) | 268,905 | 26,290 | | 19,836 | 315,031 | 25,009 |
| Deposits payable | | | | 89,233 | 89,233 | |
| Claims payable (Note 14) | | | | | | 3,534,250 |
| Advances from other funds (Note 4) | | | 1,341,450 | | 1,341,450 | |
| Net OPEB Obligation (Note 13) | | | | | | 497,475 |
| Long-term debt (Note 9) | | | | | | |
| Revenue bonds, net of unamortized issuance costs and discounts | 45,136,260 | 3,530,668 | | | 48,666,928 | |
| Notes payable | 4,865,757 | | | 894,941 | 5,760,698 | |
| Capital lease obligations | 19,406,198 | | 44,170 | | 19,450,368 | 102,337 |
| Total Long-term Liabilities | 69,677,120 | 3,556,958 | 1,385,620 | 1,004,010 | 75,623,708 | 4,159,071 |
| TOTAL LIABILITIES | 75,176,266 | 6,014,393 | 1,894,662 | 1,164,129 | 84,249,450 | 7,352,726 |
| NET ASSETS (NOTE 11): | | | | | | |
| Invested in capital assets, net of related debt | 50,841,673 | 8,166,033 | 1,001,978 | 2,362,470 | 62,372,154 | 7,194,631 |
| Restricted | | | | 1,077,381 | 1,077,381 | |
| Unrestricted | 17,346,753 | 11,428,497 | (1,676,605) | 15,896,677 | 42,995,322 | 4,674,294 |
| Total net assets (deficit) | \$68,188,426 | \$19,594,530 | (\$674,627) | \$19,336,528 | \$106,444,857 | \$11,868,925 |

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, 2012

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities- Internal Service Funds |
|--|---|-----------------------------------|--------------------|---------------------|----------------------|--|
| | Water Utility | Materials Diversion Utility | Golf Course | Housing | Totals | |
| OPERATING REVENUES | | | | | | |
| Charges for services | \$22,023,872 | \$24,520,954 | \$1,494,876 | \$1,176,945 | \$49,216,647 | \$10,237,933 |
| Miscellaneous | 136,363 | 88,435 | | | 224,798 | |
| Total Operating Revenues | <u>22,160,235</u> | <u>24,609,389</u> | <u>1,494,876</u> | <u>1,176,945</u> | <u>49,441,445</u> | <u>10,237,933</u> |
| OPERATING EXPENSES | | | | | | |
| Cost of goods sold | | | 109,545 | | 109,545 | 528,124 |
| Housing assistance | | | | 10,802,444 | 10,802,444 | |
| General administrative | | | | 2,474,722 | 2,474,722 | |
| Employee services and benefits | 5,789,716 | 666,485 | | 1,190,411 | 7,646,612 | 2,091,716 |
| Materials and services | 9,599,627 | 19,295,835 | 1,514,724 | 112,306 | 30,522,492 | 3,988,622 |
| Insurance premiums | | | | 33,042 | 33,042 | 923,035 |
| Depreciation | 2,980,929 | 279,802 | 159,214 | 68,301 | 3,488,246 | 978,758 |
| Total Operating Expenses | <u>18,370,272</u> | <u>20,242,122</u> | <u>1,783,483</u> | <u>14,681,226</u> | <u>55,077,103</u> | <u>8,510,255</u> |
| Operating Income (Loss) | <u>3,789,963</u> | <u>4,367,267</u> | <u>(288,607)</u> | <u>(13,504,281)</u> | <u>(5,635,658)</u> | <u>1,727,678</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Investment income | 206,629 | 223,494 | (10,359) | 117,113 | 536,877 | 128,449 |
| Grants from other governments | 6,101 | | 85,000 | 11,263,055 | 11,354,156 | |
| Interest expense and fiscal charges | (3,256,964) | (263,062) | | | (3,520,026) | |
| Total Nonoperating Revenues (Expenses) | <u>(3,044,234)</u> | <u>(39,568)</u> | <u>74,641</u> | <u>11,380,168</u> | <u>8,371,007</u> | <u>128,449</u> |
| Income (Loss) Before Transfers | 745,729 | 4,327,699 | (213,966) | (2,124,113) | 2,735,349 | 1,856,127 |
| Connection fees and capital grants | 352,060 | | | | 352,060 | |
| Transfers in (Note 4A) | | | 100,000 | | 100,000 | 147,765 |
| Transfers out (Note 4A) | (1,884,654) | (2,273,967) | | (119,205) | (4,277,826) | (511,625) |
| Change in Net Assets | (786,865) | 2,053,732 | (113,966) | (2,243,318) | (1,090,417) | 1,492,267 |
| Beginning Net Assets | <u>68,975,291</u> | <u>17,540,798</u> | <u>(560,661)</u> | <u>21,579,846</u> | <u>107,535,274</u> | <u>10,376,658</u> |
| Ending Net Assets (Deficit) | <u>\$68,188,426</u> | <u>\$19,594,530</u> | <u>(\$674,627)</u> | <u>\$19,336,528</u> | <u>\$106,444,857</u> | <u>\$11,868,925</u> |

See accompanying notes to financial statements

CITY OF NAPA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

| | 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 | \$21,071,870 | \$24,426,425 | \$1,525,356 | \$1,208,069 | \$48,231,720 | \$9,399,838 |
| Payments to suppliers | (9,931,989) | (19,147,530) | (1,643,710) | (13,439,858) | (44,163,087) | (4,150,385) |
| Payments for loans | | | | (57,052) | (57,052) | |
| Payments to or on behalf of employees | (5,758,778) | (662,477) | | (1,136,952) | (7,558,207) | (3,552,815) |
| Cash Flows from Operating Activities | 5,381,103 | 4,616,418 | (118,354) | (13,425,793) | (3,546,626) | 1,696,638 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Operating grants received | 6,101 | | 85,000 | 11,296,460 | 11,387,561 | |
| Interfund payments | (807,799) | | | | (807,799) | |
| Interfund receipts | 789,724 | | 33,897 | 20,922 | 844,543 | 267,610 |
| Transfers in | | | 100,000 | | 100,000 | 147,765 |
| Transfers (out) | (1,884,654) | (2,273,967) | | (119,205) | (4,277,826) | (511,625) |
| Cash Flows from Noncapital Financing Activities | (1,896,628) | (2,273,967) | 218,897 | 11,198,177 | 7,246,479 | (96,250) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Connection fees and capital grants | 374,210 | | | | 374,210 | |
| Acquisition of capital assets | (5,294,852) | (174,887) | (21,550) | | (5,491,289) | (1,524,579) |
| Principal payments on capital debt | (2,064,666) | (407,884) | (29,536) | (39,407) | (2,541,493) | |
| Interest paid | (3,266,110) | (272,128) | | (1,885) | (3,540,123) | |
| Cash Flows from Capital and Related Financing Activities | (10,251,418) | (854,899) | (51,086) | (41,292) | (11,198,695) | (1,524,579) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Interest | 237,121 | 227,900 | (11,353) | 132,311 | 585,979 | 137,083 |
| Cash Flows from Investing Activities | 237,121 | 227,900 | (11,353) | 132,311 | 585,979 | 137,083 |
| Net Cash Flows | (6,529,822) | 1,715,452 | 38,104 | (2,136,597) | (6,912,863) | 212,892 |
| Cash and cash equivalents at beginning of period | 21,218,633 | 11,317,317 | | 8,890,666 | 41,426,616 | 9,267,386 |
| Cash and cash equivalents at end of period | <u>\$14,688,811</u> | <u>\$13,032,769</u> | <u>\$38,104</u> | <u>\$6,754,069</u> | <u>\$34,513,753</u> | <u>\$9,480,278</u> |
| Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities: | | | | | | |
| Operating income (loss) | \$3,789,963 | \$4,367,267 | (\$288,607) | (\$13,504,281) | (\$5,635,658) | \$1,727,678 |
| Adjustments to reconcile operating income to cash flows from operating activities: | | | | | | |
| Depreciation | 2,980,929 | 279,802 | 159,214 | 68,301 | 3,488,246 | 978,758 |
| Change in assets and liabilities: | | | | | | |
| Receivables, net | (1,398,217) | (235,222) | (169) | (56,985) | (1,690,593) | (813,381) |
| Prepaid items & inventory | | | (23,394) | | (23,394) | |
| Other assets | | | | | | 3,759 |
| Accounts payable and other accrued expenses | (332,362) | 148,305 | 3,953 | (17,344) | (197,448) | 395,602 |
| Claims payable | | | | | | (33,000) |
| Net OPEB Obligation | | | | | | (540,081) |
| Deposits payable | 309,852 | 52,258 | 30,649 | 31,057 | 423,816 | |
| Deferred revenue | | | | | | (24,714) |
| Vacation and sick leave payable | 30,938 | 4,008 | | 53,459 | 88,405 | 2,017 |
| Cash Flows from Operating Activities | \$5,381,103 | \$4,616,418 | (\$118,354) | (\$13,425,793) | (\$3,546,626) | \$1,696,638 |

See accompanying notes to financial statements

| |
|------------------------|
| FIDUCIARY FUNDS |
|------------------------|

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Agency Funds

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.

Private Purpose Trust Fund

Successor Agency to the Napa Community Redevelopment Agency

To account for the activities of the Successor Agency to the Napa Community Redevelopment Agency.

CITY OF NAPA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

| | Successor Agency to the Napa Community Redevelopment Agency Private-Purpose Trust Fund | Agency Funds |
|--|--|-----------------|
| ASSETS | | |
| Cash and investments (Note 3) | | \$224,282 |
| Restricted cash and investments (Note 3) | \$5,414,597 | 0 |
| Accounts receivable | | 1,322 |
| Interest receivable | 20,657 | 241 |
| Loan receivable | | 184,536 |
| Unamortized bond costs | 363,200 | |
| Capital assets (Note 17) | | |
| Land | 35,480 | |
| Depreciable | 82,638 | |
| Less: Accumulated depreciation | (77,036) | |
| Total Assets | \$5,839,536 | \$410,381 |
| LIABILITIES | | |
| Accounts payable | \$41,360 | \$328,404 |
| Accrued interest payable | 258,013 | |
| Unearned revenue | 949,027 | |
| Loan payable to the City | 811,299 | |
| Long-term debt (Note 17) | | |
| Due within one year | 1,800,000 | |
| Due in more than one year | 15,490,000 | |
| Due to bondholders | | 81,977 |
| Total Liabilities | 19,349,699 | \$410,381 |
| NET ASSETS | | |
| Held in Trust for private purpose | (\$13,510,163) | |

See accompanying notes to financial statements

CITY OF NAPA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

| | Successor Agency to the Napa Community Redevelopment Agency Private-Purpose Trust Fund |
|---|--|
| ADDITIONS | |
| Intergovernmental revenue | \$2,607,750 |
| Charges for services | 17,856 |
| Investment earnings | <u>61,567</u> |
| Total additions | <u>2,687,173</u> |
| DEDUCTIONS | |
| Community development | 144,515 |
| Depreciation expense | 430 |
| Debt service: | |
| Interest and fiscal charges | <u>2,687</u> |
| Total deductions | <u>147,632</u> |
| Change in net assets before extraordinary item | <u>2,539,541</u> |
| EXTRAORDINARY ITEM (Note 17) | |
| Assets transferred to/ liabilities assumed by Successor Agency | <u>(16,049,704)</u> |
| Net assets - beginning | <u> </u> |
| Net assets - end | <u><u>(\$13,510,163)</u></u> |

See accompanying notes to financial statements

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CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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 State of California dissolved the Napa Community Redevelopment Agency (and all other State Redevelopment Agencies) effective February 1, 2012. All remaining balances of the Napa Community Redevelopment Agency (as of January 31, 2012) were transferred to the Successor Agency Trust Fund effective February 1, 2012.

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, 2012.

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, 2012.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

B. Basis of Presentation

These *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 FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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 Special Revenue 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 FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

| |
|--|
| 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.

The City also reports the following fiduciary fund types:

Trust Funds – This fund accounts for assets held by the City in trust for the Successor Agency to the Napa Community Redevelopment Agency Private Purpose Trust Fund which accounts for the activities of the Successor Agency to the Napa Community Redevelopment Agency.

Agency Funds – These funds account for assets held by the City as an agent of an assessment district in the City and the employees’ flexible spending account. These Funds are custodial in nature and do not involve measurement of the results of operations.

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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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

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.

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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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| NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued) |
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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.

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 FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 | \$ 2,367,854 | \$ 353,997 | \$ 2,721,851 |
| Additions | 128,651 | 95,197 | 223,848 |
| Payments | (137,038) | (6,792) | (143,830) |
| Ending balance | 2,359,467 | 442,402 | 2,801,869 |
| Current portion | \$ 29,030 | \$ 127,371 | \$ 156,401 |

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.

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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

NOTE 2 – BUDGETARY INFORMATION (Continued)

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, 2012, 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.

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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

NOTE 3 – CASH AND INVESTMENTS (Continued)

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

| | |
|--|---------------|
| Cash and investments available for operations | \$98,738,815 |
| Restricted cash and investments | 4,103,519 |
| City cash and investments | 102,842,334 |
| Cash and investments available for operations in | |
| Fiduciary Funds (Separate Statement) | 224,282 |
| Restricted cash and investments in | |
| Fiduciary Funds (Separate Statement) | 5,414,597 |
| Total cash and investments | \$108,481,213 |

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% |

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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 |

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, 2012, by maturity:

| Type of Investments | Less Than One Year | One to Three Years | Three to Five Years | Total |
|--------------------------------------|--------------------|--------------------|---------------------|---------------|
| Local Agency Investment Fund | \$45,198,817 | | | \$45,198,817 |
| Certificate of Deposit | 500,021 | \$1,001,761 | | 1,501,782 |
| U.S. Treasury Notes | | 4,605,722 | \$6,353,526 | 10,959,248 |
| Corporate Notes | 719,877 | 6,612,234 | 2,227,448 | 9,559,559 |
| Money Market Funds (U.S. Securities) | 1,851,969 | | | 1,851,969 |
| Federal Agency Securities | 559,043 | 20,502,947 | 12,073,724 | 33,135,714 |
| Total Investments | \$48,829,727 | \$32,722,664 | \$20,654,698 | 102,207,089 |
| <i>Cash in banks and on hand</i> | | | | 6,274,124 |
| Total Cash and Investments | | | | \$108,481,213 |

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

NOTE 3 – CASH AND INVESTMENTS (Continued)

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Section 6500 et seq., or the “Act”) for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2012 the value approximated is the City’s cost. At June 30, 2012, these investments have an average maturity of 53 days.

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, 2012, for each investment type.

| Investment Type | AAA/AAAm | AA+/AA/AA- | A+/A/A-/A1/A1+ | Total |
|--|-------------|--------------|----------------|---------------|
| <i>Held by Trustees:</i> | | | | |
| Certificates of Deposit | | \$1,001,761 | \$500,021 | \$1,501,782 |
| Corporate Notes | \$261,627 | 4,278,801 | 5,019,131 | 9,559,559 |
| Money Market Funds | 1,851,969 | | | 1,851,969 |
| Federal Agency Securities | | 33,135,714 | | 33,135,714 |
| Total | \$2,113,596 | \$38,416,276 | \$5,519,152 | 46,049,024 |
| <i>Not Rated:</i> | | | | |
| Local Agency Investment Fund | | | | 45,198,817 |
| <i>Exempt from credit rating disclosure:</i> | | | | |
| U.S. Treasury Notes | | | | 10,959,248 |
| <i>Cash in banks and on hand</i> | | | | |
| Total Cash and Investments | | | | \$108,481,213 |