

**CITY OF NAPA, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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**CITY OF NAPA, CALIFORNIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED JUNE 30, 2010**

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## INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council  
City of Napa, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa as of and for the year ended June 30, 2010, 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 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, 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, 2010, 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 11F, the City recategorized certain funds as of July 1, 2009 and as a result restated beginning fund balance.

In accordance with Government Auditing Standards, we have also issued our report February 1, 2011 dated on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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



February 1, 2011

<b>CITY OF NAPA MANAGEMENT'S DISCUSSION AND ANALYSIS</b>
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### 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, 2010.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report is presented in the following sections:

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

### **The Basic Financial Statements**

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

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

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

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

### FINANCIAL HIGHLIGHTS

The City provides services to the citizens of Napa by leveraging property, sales, and other taxes with user fees and federal, state, and local grants to finance its operations. The City's sales and transient occupancy tax revenues increased in fiscal 2010 as tourism activity began to rebound.

<b>CITY OF NAPA</b> <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>
--

The governmental and business-type activities net assets fell by \$0.1 million and \$1.5 million respectively. The City's governmental unrestricted balance decreased by \$17.5 million during the year, while the governmental restricted balance available for capital projects and housing decreased by \$1.5 million.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The total net assets of the City as of June 30, 2009 and 2010 are summarized in Table 1 below and are followed by a discussion of the balances by category.

**Government-wide Net Assets**

Table 1  
Summary of Net Assets

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
<b>Assets:</b>						
Cash and investments	\$ 75,706,636	\$ 70,337,526	\$ 61,286,050	\$ 48,932,634	\$ 136,992,686	\$ 119,270,160
Receivables, other current assets	31,961,586	30,825,308	11,616,968	12,641,283	43,578,554	43,466,591
Capital assets	348,189,558	354,027,552	122,110,212	129,969,033	470,299,770	483,996,585
<b>Total assets</b>	<b>455,857,780</b>	<b>455,190,386</b>	<b>195,013,230</b>	<b>191,542,950</b>	<b>650,871,010</b>	<b>646,733,336</b>
<b>Liabilities:</b>						
Long-term debt	34,916,503	34,293,245	84,863,257	82,284,445	119,779,760	116,577,690
Other liabilities	12,747,868	12,841,355	7,239,555	7,874,768	19,987,423	20,716,123
<b>Total liabilities</b>	<b>47,664,371</b>	<b>47,134,600</b>	<b>92,102,812</b>	<b>90,159,213</b>	<b>139,767,183</b>	<b>137,293,813</b>
<b>Net assets:</b>						
Invested in capital assets, net of debt	348,410,270	353,698,706	67,093,530	70,796,946	415,503,800	424,495,652
Restricted	39,644,637	38,112,718	8,427,292	1,186,679	48,071,929	39,299,397
Unrestricted	20,138,502	16,244,362	27,389,596	29,400,112	47,528,098	45,644,474
<b>Total net assets</b>	<b>\$ 408,193,409</b>	<b>\$ 408,055,786</b>	<b>\$ 102,910,418</b>	<b>\$ 101,383,737</b>	<b>\$ 511,103,827</b>	<b>\$ 509,439,523</b>

**Cash and investments** - The City's cash and investment portfolio decreased by \$18 million to \$119 million during the year due primarily to decreased revenues and reduced interest rates. The cash balance comprises \$64 million held by the Trustees, \$31 million held for governmental programs or designated for other budgetary commitments and \$24 million held for enterprise operations.

**Receivables and other current assets** - The City's other current assets decreased by \$0.1 million to \$43.5 million.

**Capital assets** - The City's capital assets increased in governmental activities by \$5.8 million during the year. The increase is primarily due to construction in progress and new assets related to street projects. The City's business-type capital assets increased by \$7.9 million during the year, primarily due to the construction in progress on a new water treatment plant.

**Long-term debt** - The long-term debt of \$116.6 million includes the City's four major revenue bonds issued for water, housing, and redevelopment programs, as well as other various smaller notes and leases. The long term debt balance decreased by \$3.2 million due primarily to an absence of new debt issues in the current year and timely payment on outstanding issues.

**Net assets** - The City's total net assets decreased by 1.7 million during the fiscal year, to \$509.4 million. The governmental net asset balance of \$408.1 million includes \$353.7 million invested in capital assets net of related debt, \$38.1 million restricted funds available for capital projects and housing programs, and a remaining balance of \$16.2 million available for future needs. The change in balances is due primarily to reduced revenues and the budgeted use of undesignated fund balance to fund operations during the down economy.

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

**Government-wide Activities**

The changes in the City's government-wide net assets as of June 30, 2010 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, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 9,204,012	\$ 10,052,392	\$ 42,781,548	\$ 43,928,692	\$ 51,985,560	\$ 53,981,084
Operating grants and contributions	5,245,959	4,826,983	10,085,894	10,376,212	15,331,853	15,203,195
Capital grants and contributions	9,534,640	13,005,533	71,425	334,125	9,606,065	13,339,658
General revenues:						
Property, sales, and other taxes	46,406,696	51,029,943			46,406,696	51,029,943
Other	11,831,537	4,098,560	2,776,819	717,464	14,608,356	4,816,024
<b>Total revenues</b>	<b>82,222,844</b>	<b>83,013,411</b>	<b>55,715,686</b>	<b>55,356,493</b>	<b>137,938,530</b>	<b>138,369,904</b>
<b>Expenses:</b>						
Governmental activities:						
General government	22,802,759	20,224,918			22,802,759	20,224,918
Public safety	34,178,931	34,152,460			34,178,931	34,152,460
Public works	16,495,721	20,220,625			16,495,721	20,220,625
Park and recreation	4,902,740	8,568,547			4,902,740	8,568,547
Housing	323,830	237,987			323,830	237,987
Redevelopment	847,444	1,417,676			847,444	1,417,676
Interest on long term debt	1,055,912	1,057,795			1,055,912	1,057,795
Business-type activities:						
Water			19,975,591	21,422,732	19,975,591	21,422,732
Garbage			18,850,758	19,776,102	18,850,758	19,776,102
Golf course			1,746,291	1,768,257	1,746,291	1,768,257
Housing			10,602,068	11,187,109	10,602,068	11,187,109
<b>Total expenses</b>	<b>80,607,337</b>	<b>85,880,008</b>	<b>51,174,708</b>	<b>54,154,200</b>	<b>131,782,045</b>	<b>140,034,208</b>
<b>Excess before transfers</b>	<b>1,615,507</b>	<b>(2,866,597)</b>	<b>4,540,978</b>	<b>1,202,293</b>	<b>6,156,485</b>	<b>(1,664,304)</b>
<b>Transfers</b>	<b>2,694,304</b>	<b>2,728,974</b>	<b>(2,694,304)</b>	<b>(2,728,974)</b>		
<b>Changes in net assets</b>	<b>\$ 4,309,811</b>	<b>\$ (137,623)</b>	<b>\$ 1,846,674</b>	<b>\$ (1,526,681)</b>	<b>\$ 6,156,485</b>	<b>\$ (1,664,304)</b>

The City's net assets decreased by \$1.7 million during the year, as measured on the accrual basis of accounting. Governmental revenues increased 1% (\$0.8 million) primarily due to a \$4.6 million increase in property, sales and other taxes, an increase in charges for services of \$0.8 million, and an increase in capital grants of \$3.7 million due to Federal Stimulus (ARRA) grants being made available to boost the economic recovery. The increases in the above revenue categories served to offset decreases in operating grants (\$0.5 million) and other various revenues (\$7.7 million). Governmental expenses increased from the prior fiscal year by \$5.3 million to \$85.9 million due to increases public works expenditures related to the new Street Resurfacing program and a River Park bank repair project. The business-type revenues fell by \$0.3 million to \$55.4 million while expenses increased by \$3.0 million to \$54.2 million. After transfers, the change in business-type net assets amounted to -\$1.5 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 \$55.5 million of revenues, a decrease of \$1.9 million from the previous year. Of this amount, \$0.8 million was a reduction in intergovernmental revenues and \$1.0 million was the reduction in license and permit revenues.

The City's Property Tax revenues continued to decline; however the City realized an increase in overall property tax revenues due to one-time Excess-Excess ERAF funds of \$1.3 million. Investment earnings were also down due to less cash invested and low interest rates. General Fund expenditures amounted to \$63 million, which was a decrease of \$1.8 million from the prior year. General Government saw the largest decrease in expenditures amounting to \$6.5 million due to the shifting of Building and Facility Maintenance responsibilities from the Finance Department to the Parks & Recreation Department. Approximately 54% of General Fund expenditures were used for public safety operations

**Development Fees Fund** - The sources of revenue for this fund are the various development impact fees collected from developers which are used for the installation or expansion of related infrastructure and affordable housing. Current year revenues were \$1.3 million, a decrease of \$1.0 million from the prior year caused primarily by the decrease in development related to the general economic downturn. During the fiscal year, the fund contributed \$1.57 million to the City's Capital Projects Fund through transfers.

**City Capital Projects Fund** - The City's capital program saw a decline in expenditures of nearly 34% due to the completion of a major bridge project and reduced state funding for capital projects. In total, \$13.7 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 Jameson Canyon Treatment Facility and construction began in 2008. Fund equity includes reserves for rate stabilization and drought response (\$2 million and \$2.8 million, respectively,) as well as capital improvement, renewal and replacement.

**Garbage Fund** - The garbage fund is also a fully self-supported enterprise which provides for local solid waste operations and operation of the materials diversion facility. Of the fund's \$19.5 million in operating expenses, \$2.5 million was for tipping fees. Fund equity includes reserves for rate stabilization (\$0.7 million) and capital replacement (\$0.8 million).

**Golf Course Fund** - The City's Golf Course is located at Kennedy Park. Fiscal year 2009-10, due in large part to the general economic downturn, continued to see fewer rounds of golf played, and a corresponding drop in ending net assets from \$30k to -\$279k.

**Housing (Enterprise) Fund** - The Housing Authority funds saw an increase in ending net assets of \$1.2 million due to a reduction in transfers out to other funds and an increase in grant revenues.

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

**CAPITAL ASSETS**

As of June 30, 2010, the City had invested \$484 million in capital assets, net of accumulated depreciation; an increase of 3% from the prior year. Of this \$13.7 million increase, \$11.0 million was related to construction in progress of a new water treatment plant in the water enterprise fund. Other additions included the First Street bridge project, the City's new financial system, buildings, streets, sidewalks, bridges, and parks. A summary of the City's capital assets net of depreciation at June 30, 2009 and 2010 is presented in Table 3.

**Table 3  
Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
Capital assets not subject to depreciation:						
Land	\$ 21,667,636	\$ 22,986,863	\$ 5,506,614	\$ 5,506,614	\$ 27,174,250	\$ 28,493,477
Construction in progress	62,715,824	73,057,092	28,002,624	39,178,368	90,718,448	112,235,460
Other capital assets:						
Building and improvements	13,017,279	12,368,223	22,571,279	21,477,029	35,588,558	33,845,252
Equipment	734,144	525,153	3,152,504	3,108,210	3,886,648	3,633,363
Vehicles and rentals	4,531,935	5,530,094			4,531,935	5,530,094
Infrastructure:						
Transmission and distribution systems			62,877,191	60,698,812	62,877,191	60,698,812
Bridges	19,807,463	19,433,241			19,807,463	19,433,241
Roads	207,978,090	202,952,629			207,978,090	202,952,629
Curb/gutter/sidewalks	4,958,725	4,824,435			4,958,725	4,824,435
Traffic signals	3,823,481	3,716,942			3,823,481	3,716,942
Stormwater	4,228,789	4,122,626			4,228,789	4,122,626
Park improvements	3,362,063	3,146,147			3,362,063	3,146,147
Underground utilities	61,767	60,148			61,767	60,148
Street Lights	1,302,362	1,303,959			1,302,362	1,303,959
<b>Total Capital Assets</b>	<b>\$ 348,189,558</b>	<b>\$ 354,027,552</b>	<b>\$ 122,110,212</b>	<b>\$ 129,969,033</b>	<b>\$ 470,299,770</b>	<b>\$ 483,996,585</b>

**DEBT ADMINISTRATION**

The City uses a variety of indebtedness to finance various capital acquisitions and improvements. At June 30, 2010, the City's long-term debt outstanding was \$103.7 million. The following table provides a schedule of the City's long-term debt obligations at June 30, 2009 and 2010.

**Table 4  
Long Term Debt**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
Redevelopment tax allocation bonds	\$ 22,170,000	\$ 20,635,000			\$ 22,170,000	\$ 20,635,000
Water revenue bonds			\$ 49,874,764	\$ 48,514,412	49,874,764	48,514,412
Garbage revenue bonds			5,144,321	4,776,437	5,144,321	4,776,437
Notes payable	1,216,000	1,246,000	7,263,293	6,904,817	8,479,293	8,150,817
Capital lease obligations		328,846	21,841,839	21,302,114	21,841,839	21,630,960
<b>Total Long Term Debt</b>	<b>\$ 23,386,000</b>	<b>\$ 22,209,846</b>	<b>\$ 84,124,217</b>	<b>\$ 81,497,780</b>	<b>\$ 107,510,217</b>	<b>\$ 103,707,626</b>

**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 77,100 and accounts for 60 percent of the population and jobs within Napa County. The median household income within the City of Napa is \$63,990. During the 2009-10 fiscal year, the City continued to feel the impact of the national economic downturn. The growth in revenues which the City had experienced in previous years did not continue into the 2009-10 fiscal year. Two of the major sources of revenue to the City's General Fund, property and sales tax revenues, declined during the 2009-10 fiscal year. The City also saw a reduction in development-related revenue.

While the effects of the economic downturn will most likely continue for the next several years, indications are that the City of Napa will see a slow but steady economic recovery. Recent projections show increases in the City's major sources of revenue over the next several years. While the economic climate within the City of Napa is poised to begin a period of recovery, the fiscal uncertainty at the State level is cause for concern as the State considers various options for balancing its budget shortfall. The City of Napa continues to explore alternatives for cost reduction and improvement of operational efficiency. Numerous cost saving measures have been implemented and additional cost reduction opportunities are under consideration. Increases in healthcare and retirement costs for the City's workforce continue to present a financial challenge. The City's programs with dedicated or restricted revenue sources remain in full operation. The City of Napa Redevelopment Agency and Housing Authority continue 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, 2010

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 3)	\$64,106,999	\$25,236,386	\$89,343,385
Restricted cash and investments (Note 3)	6,230,527	23,696,248	29,926,775
Receivables			
Accounts	5,505,573	6,301,837	11,807,410
Federal, state and other governments	13,839,361	208,182	14,047,543
Assessments receivable		22,150	22,150
Interest receivable	226,057	165,595	391,652
Loans receivable (Note 5)	9,361,719	6,504,337	15,866,056
Land held for redevelopment (Note 6)	125,691		125,691
Internal balances (Note 4)	644,353	(644,353)	
Other assets	1,122,554	83,535	1,206,089
Capital assets (Note 7):			
Nondepreciable	96,043,955	44,684,982	140,728,937
Depreciable	257,983,597	85,284,051	343,267,648
Total Assets	<u>455,190,386</u>	<u>191,542,950</u>	<u>646,733,336</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	4,949,650	5,937,437	10,887,087
Interest payable	302,937	540,182	843,119
Deposits payable	5,090,992	1,397,149	6,488,141
Unearned revenue	1,260,710		1,260,710
Net OPEB Obligation (Note 13)	1,237,066		1,237,066
Compensated absences (Note II):			
Due within one year	193,294	41,408	234,702
Due in more than one year	7,250,155	745,257	7,995,412
Claims payable (Note 14):			
Due within one year	1,362,900		1,362,900
Due in more than one year	3,277,050		3,277,050
Long-term debt (Note 9):			
Due within one year	1,702,696	2,428,766	4,131,462
Due in more than one year	20,507,150	79,069,014	99,576,164
Total Liabilities	<u>47,134,600</u>	<u>90,159,213</u>	<u>137,293,813</u>
<b>NET ASSETS (Note 11):</b>			
Invested in capital assets, net of related debt	353,698,706	70,796,946	424,495,652
Restricted for:			
Capital projects	33,135,282		33,135,282
Housing grant programs	4,977,436	1,186,679	6,164,115
Unrestricted	16,244,362	29,400,112	45,644,474
Total Net Assets	<u>\$408,055,786</u>	<u>\$101,383,737</u>	<u>\$509,439,523</u>

See accompanying notes to financial statements

CITY OF NAPA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010

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	
<b>Governmental Activities:</b>							
General government	\$20,261,017	\$2,106,320	\$1,960,072		(\$16,194,625)		(\$16,194,625)
Public safety	34,152,460	3,783,728	565,416		(29,803,316)		(29,803,316)
Public works	20,184,526	2,502,561	1,971,891	\$9,305,481	(6,404,593)		(6,404,593)
Parks and recreation	8,568,547	1,480,597	329,604	3,700,052	(3,058,294)		(3,058,294)
Community Development	237,987				(237,987)		(237,987)
Redevelopment	1,417,676	179,186			(1,238,490)		(1,238,490)
Interest on long-term debt	1,057,795				(1,057,795)		(1,057,795)
<b>Total Governmental Activities</b>	<b>85,880,008</b>	<b>10,052,392</b>	<b>4,826,983</b>	<b>13,005,533</b>	<b>(57,995,100)</b>		<b>(57,995,100)</b>
<b>Business-type Activities:</b>							
Water Utility	21,422,732	19,385,902		334,125		(\$1,702,705)	(1,702,705)
Garbage	19,776,102	21,726,432				1,950,330	1,950,330
Golf Course	1,768,257	1,494,779				(273,478)	(273,478)
Housing	11,187,109	1,321,579	10,376,212			510,682	510,682
<b>Total Business-type Activities</b>	<b>54,154,200</b>	<b>43,928,692</b>	<b>10,376,212</b>	<b>334,125</b>		<b>484,829</b>	<b>484,829</b>
<b>Total</b>	<b>\$140,034,208</b>	<b>\$53,981,084</b>	<b>\$15,203,195</b>	<b>\$13,339,658</b>	<b>(57,995,100)</b>	<b>484,829</b>	<b>(57,510,271)</b>
<b>General revenues:</b>							
<b>Taxes</b>							
Property					23,326,210		23,326,210
Redevelopment tax increment					6,278,468		6,278,468
Franchises					1,610,107		1,610,107
Sales taxes					11,559,006		11,559,006
Transient occupancy					8,256,152		8,256,152
Motor vehicle license fees					221,436		221,436
Business license					2,508,457		2,508,457
Investment earnings					1,368,667	717,464	2,086,131
Transfers (Note 4A)					2,728,974	(2,728,974)	
<b>Total general revenues and transfers</b>					<b>57,857,477</b>	<b>(2,011,510)</b>	<b>55,845,967</b>
<b>Change in Net Assets</b>					<b>(137,623)</b>	<b>(1,526,681)</b>	<b>(1,664,304)</b>
<b>Net Assets-Beginning</b>					<b>408,193,409</b>	<b>102,910,418</b>	<b>511,103,827</b>
<b>Net Assets-Ending</b>					<b>\$408,055,786</b>	<b>\$101,383,737</b>	<b>\$509,439,523</b>

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 2010. Individual non-major funds may be found in the Supplemental section.

### **GENERAL FUND**

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

### **DEVELOPMENT FEES SPECIAL REVENUE FUND**

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

### **HOME PROGRAM**

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

### **CITY CAPITAL PROJECTS FUND**

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

CITY OF NAPA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments (Note 3)	\$11,862,542	\$18,095,745		\$4,935,904	\$19,092,772	\$53,986,963
Restricted cash and investments (Note 3)					6,230,527	6,230,527
Receivables, net:						
Accounts	2,747,208	1,117,967	\$83,864	885,378	643,385	5,477,802
Federal, state and other governments	1,944,040			11,082,897	408,573	13,435,510
Interest receivable	35,554	51,239			107,852	194,645
Loans receivable (Note 5)			6,318,305		3,043,414	9,361,719
Due from other funds (Note 4)	415,249				2,509,542	2,924,791
Prepaid items	26,294		51,600		11,097	88,991
Advances to other funds (Note 4)	482,850	244,800		675,000	1,000,000	2,402,650
Land held for redevelopment (Note 6)					125,691	125,691
<b>Total Assets</b>	<b>\$17,513,737</b>	<b>\$19,509,751</b>	<b>\$6,453,769</b>	<b>\$17,579,179</b>	<b>\$33,172,853</b>	<b>\$94,229,289</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$1,730,849		\$173	\$1,231,141	\$1,498,311	\$4,460,474
Vacation and sick leave accrual (Note 11)	152,826					152,826
Deposits payable	672,041			456,699	3,962,252	5,090,992
Due to other funds (Note 4)			19,873		2,535,517	2,555,390
Deferred revenue	1,086,503	\$1,058,121	6,318,305	10,527,685	3,179,322	22,169,936
Advances from other funds (Note 4)					1,768,149	1,768,149
<b>Total Liabilities</b>	<b>3,642,219</b>	<b>1,058,121</b>	<b>6,338,351</b>	<b>12,215,525</b>	<b>12,943,551</b>	<b>36,197,767</b>
<b>FUND BALANCES (Note 11)</b>						
Reserved for encumbrances	2,368,025		37	10,171,943	5,120,690	17,660,695
Reserved for debt service					2,351,610	2,351,610
Reserved for bond projects					482,950	482,950
Reserved for advances to other funds	482,850	244,800		675,000	1,000,000	2,402,650
Reserved for prepaids and land held for redevelopment	26,294		51,600		136,788	214,682
Reserved for loans receivable					35,000	35,000
Unreserved:						
Designated for emergency reserve	7,536,612					7,536,612
Undesignated, reported in:						
General Fund	3,457,737					3,457,737
Special Revenue Funds		18,206,830	63,781		9,455,345	27,725,956
Debt Service Funds					2,425,053	2,425,053
Capital Project Funds				(5,483,289)	(778,134)	(6,261,423)
<b>Total Fund Balances</b>	<b>13,871,518</b>	<b>18,451,630</b>	<b>115,418</b>	<b>5,363,654</b>	<b>20,229,302</b>	<b>58,031,522</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$17,513,737</b>	<b>\$19,509,751</b>	<b>\$6,453,769</b>	<b>\$17,579,179</b>	<b>\$33,172,853</b>	<b>\$94,229,289</b>

See accompanying notes to financial statements

CITY OF NAPA  
 Reconciliation of the  
 GOVERNMENTAL FUNDS -- BALANCE SHEET  
 with the  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2010

Fund balances, as reported on the Governmental Funds Balance Sheet		\$58,031,522
<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.		348,207,364
<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		20,912,525
<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.		9,868,727
<p>Long-term liabilities and related accounts:</p>		
The liabilities below are not due and payable in the current period and therefore are not reported on the Governmental Funds Balance Sheet:		
Long-term debt	(21,881,000)	
Interest payable	(302,937)	
Compensated absences	(7,247,387)	
Unamortized costs of bond issuance have been capitalized on the statement of net assets	466,972	
		(28,964,352)
Net assets of Governmental Activities, as reported on the Statement of Net Assets		\$408,055,786

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, 2010

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$33,183,725				\$6,287,212	\$39,470,937
Licenses, permits and fees	3,476,762					3,476,762
Intergovernmental	13,497,422	\$25,000	\$80,940	\$12,779,533	3,020,933	29,403,828
Charges for services	4,915,577	940,738	113,624	381,257	2,585,850	8,937,046
Investment income	249,808	363,447	(523)		542,507	1,155,239
Miscellaneous revenues	147,220	7,846			16,690	171,756
<b>Total Revenues</b>	<b>55,470,514</b>	<b>1,337,031</b>	<b>194,041</b>	<b>13,160,790</b>	<b>12,453,192</b>	<b>82,615,568</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General government	14,725,033	1,440			2,883,811	17,610,284
Public safety	34,186,440				594,854	34,781,294
Public works	6,987,199				1,884,225	8,871,424
Parks and recreation	7,043,410	4			1,057,130	8,100,544
Community development			237,987			237,987
Redevelopment					935,263	935,263
County fees and pass-through					211,463	211,463
Capital outlay	64,185			13,698,116	3,633,078	17,395,379
<b>Debt service:</b>						
Principal					1,535,000	1,535,000
Interest and fiscal charges					1,025,118	1,025,118
<b>Total Expenditures</b>	<b>63,006,267</b>	<b>1,444</b>	<b>237,987</b>	<b>13,698,116</b>	<b>13,759,942</b>	<b>90,703,756</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(7,535,753)	1,335,587	(43,946)	(537,326)	(1,306,750)	(8,088,188)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from sale of capital assets			221,126			221,126
Transfers in (Note 4A)	3,878,093		73,331	3,929,250	7,503,922	15,384,596
Transfers (out) (Note 4A)	(551,777)	(1,573,744)	(16,695)	(554,144)	(9,910,194)	(12,606,554)
<b>Total Other Financing Sources (Uses)</b>	<b>3,326,316</b>	<b>(1,573,744)</b>	<b>277,762</b>	<b>3,375,106</b>	<b>(2,406,272)</b>	<b>2,999,168</b>
<b>Net Change in Fund Balances</b>	<b>(4,209,437)</b>	<b>(238,157)</b>	<b>233,816</b>	<b>2,837,780</b>	<b>(3,713,022)</b>	<b>(5,089,020)</b>
Beginning Fund Balances, as restated (Note 11F)	18,080,955	18,689,787	(118,398)	2,525,874	23,942,324	63,120,542
<b>Ending Fund Balances</b>	<b>\$13,871,518</b>	<b>\$18,451,630</b>	<b>\$115,418</b>	<b>\$5,363,654</b>	<b>\$20,229,302</b>	<b>\$58,031,522</b>

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, 2010

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance (\$5,089,020)

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.

Capitalized expenditures are added back to fund balance	17,438,993	
Net retirements are deducted from fund balance	(297,643)	
Depreciation expense is deducted from fund balance (Depreciation expense is net of internal service fund depreciation of \$765,158 which has already been allocated to serviced funds)	<u>(11,990,705)</u>	

5,150,645

Non-current revenues:

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Loan activities, net	(2,253,109)
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Internal service fund activities:

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

754,671

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	1,535,000	
Net, addition to vacation and sick leave payable	(173,133)	
Amortization of bond discount and costs	(81,886)	
Reduction in interest payable , other net	<u>19,209</u>	

1,299,190

Change in Net Assets of Governmental Activities, as reported on the Statement of Activities (\$137,623)

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, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Fund Balance			\$18,080,955	
Revenues:				
Taxes:	\$34,942,487	\$32,278,451	33,183,725	\$905,274
Licenses, permits and fees	4,722,839	4,091,970	3,476,762	(615,208)
Intergovernmental revenues	13,901,934	14,276,340	13,497,422	(778,918)
Charges for services	4,480,678	5,508,000	4,915,577	(592,423)
Interest on investments	750,000	360,000	249,808	(110,192)
Miscellaneous revenues	139,400	139,400	147,220	7,820
Total Revenues	58,937,338	56,654,161	55,470,514	(1,183,647)
Expenditures:				
Current:				
General government	15,494,735	17,492,393	14,725,033	2,767,360
Public safety	34,554,527	34,979,979	34,186,440	793,539
Public works	7,213,747	7,296,648	6,987,199	309,449
Parks and recreation	7,675,476	7,321,492	7,043,410	278,082
Capital outlay	100,930	91,317	64,185	27,132
Total Expenditures	65,039,415	67,181,829	63,006,267	4,175,562
Other Financing Sources (Uses):				
Transfers in	3,536,486	3,985,630	3,878,093	(107,537)
Transfers (out)	(852,332)	(483,832)	(551,777)	(67,945)
Total Other Financing Sources (Uses)	2,684,154	3,501,798	3,326,316	(175,482)
Net Change in Fund Balances	(\$3,417,923)	(\$7,025,870)	(4,209,437)	\$2,816,433
Ending Fund Balance			\$13,871,518	

See accompanying notes to financial statements

CITY OF NAPA  
DEVELOPMENT FEES FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2010

	<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, as restated (Note 11F)			<u>\$18,689,787</u>	
Revenues:				
Other			25,000	\$25,000
Charges for services	\$104,600	\$104,600	940,738	836,138
Investment income	459,060	459,060	363,447	(95,613)
Miscellaneous			7,846	7,846
Total Revenues	<u>563,660</u>	<u>563,660</u>	<u>1,337,031</u>	<u>773,371</u>
Expenditures:				
Current				
General government			1,440	(1,440)
Parks and recreation	40,000	40,000	4	39,996
Total Expenditures	<u>40,000</u>	<u>40,000</u>	<u>1,444</u>	<u>38,556</u>
Other Financing Sources (Uses):				
Transfers in	250,000	572,412		(572,412)
Transfers (out)	<u>(386,000)</u>	<u>(7,704,821)</u>	<u>(1,573,744)</u>	<u>6,131,077</u>
Total Other Financing Sources (Uses)	<u>(136,000)</u>	<u>(7,132,409)</u>	<u>(1,573,744)</u>	<u>5,558,665</u>
Net Change in Fund Balances	<u>\$387,660</u>	<u>(\$6,608,749)</u>	<u>(238,157)</u>	<u>\$6,293,480</u>
Ending Fund Balance (Deficit)			<u>\$18,451,630</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, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Fund Balance			(\$118,398)	
Revenues:				
Investment income			(523)	(\$523)
Intergovernmental revenues		\$800,000	80,940	(719,060)
Charges for services	\$299,839	276,827	113,624	(163,203)
Total Revenues	299,839	1,076,827	194,041	(882,786)
Expenditures:				
Current:				
Community development	278,012	1,055,713	237,987	817,726
Total Expenditures	278,012	1,055,713	237,987	817,726
Other Financing Sources (Uses):				
Proceeds from sale of capital asset			221,126	221,126
Transfer In			73,331	73,331
Transfers (out)	(16,695)	(16,695)	(16,695)	
Total Other Financing Sources (Uses)	(16,695)	(16,695)	277,762	294,457
Net Change in Fund Balances	\$5,132	\$4,419	233,816	(\$1,406,055)
Ending Fund Balance (Deficit)			\$115,418	

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, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and investments (Note 3)	\$9,333,717	\$9,551,553		\$6,351,116	\$25,236,386	\$10,120,036
Receivables, net:						
Accounts	3,842,488	2,398,834		60,515	6,301,837	27,771
Federal, state and other governments	132,777			75,405	208,182	403,851
Assessments receivable	22,150				22,150	
Due from other funds (Note 4)				25,975	25,975	
Interest receivable	75,231	66,196		24,168	165,595	31,412
Prepaid items			\$9,611		9,611	155,269
Inventory (Note 1G)			73,924		73,924	411,322
<b>Total Current Assets</b>	<b>13,406,363</b>	<b>12,016,583</b>	<b>83,535</b>	<b>6,537,179</b>	<b>32,043,660</b>	<b>11,149,661</b>
<b>Noncurrent Assets:</b>						
Restricted cash and investments (Note 3)	19,963,353	2,362,340		1,370,555	23,696,248	
Advance to other funds (Note 4)	768,149				768,149	
Loans receivable (Note 5)	353,500			6,150,837	6,504,337	
Capital assets (Note 7):						
Nondepreciable	39,374,999	3,117,012	420,560	1,772,411	44,684,982	112,694
Depreciable	76,672,811	6,000,107	954,940	1,656,193	85,284,051	5,707,494
<b>Total Noncurrent Assets</b>	<b>137,132,812</b>	<b>11,479,459</b>	<b>1,375,500</b>	<b>10,949,996</b>	<b>160,937,767</b>	<b>5,820,188</b>
<b>TOTAL ASSETS</b>	<b>150,539,175</b>	<b>23,496,042</b>	<b>1,459,035</b>	<b>17,487,175</b>	<b>192,981,427</b>	<b>16,969,849</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued liabilities	3,218,647	2,416,785	102,500	199,505	5,937,437	489,176
Compensated absences (Note 11)	41,408				41,408	
Claims payable (Note 14)						1,362,900
Accrued interest	425,323	114,859			540,182	
Deposits payable	365,692	918,268	46,993	37,833	1,368,786	
Deferred revenue						3,299
Due to other funds (Note 4)			35,827		35,827	359,549
Long-term debt (Note 9):						
Revenue bonds	1,050,000	410,000			1,460,000	
Notes payable	332,294			37,415	369,709	
Capital lease obligations	555,354		43,703		599,057	87,696
<b>Total Current Liabilities</b>	<b>5,988,718</b>	<b>3,859,912</b>	<b>229,023</b>	<b>274,753</b>	<b>10,352,406</b>	<b>2,302,620</b>
<b>Long-term Liabilities:</b>						
Compensated absences (Note 11)	721,141	24,116			745,257	43,236
Deposits payable				28,363	28,363	
Claims payable (Note 14)						3,277,050
Advances from other funds (Note 4)			1,402,650		1,402,650	
Net OPEB Obligation (Note 13)						1,237,066
Long-term debt (Note 9):						
Revenue bonds, net of unamortized issuance costs and discounts	47,464,413	4,366,436			51,830,849	
Notes payable	5,558,950			976,158	6,535,108	
Capital lease obligations	20,596,661		106,396		20,703,057	241,150
<b>Total Long-term Liabilities</b>	<b>74,341,165</b>	<b>4,390,552</b>	<b>1,509,046</b>	<b>1,004,521</b>	<b>81,245,284</b>	<b>4,798,502</b>
<b>TOTAL LIABILITIES</b>	<b>80,329,883</b>	<b>8,250,464</b>	<b>1,738,069</b>	<b>1,279,274</b>	<b>91,597,690</b>	<b>7,101,122</b>
<b>NET ASSETS (NOTE 11):</b>						
Invested in capital assets, net of related debt	60,453,491	6,703,023	1,225,401	2,415,031	70,796,946	5,491,342
Restricted				1,186,679	1,186,679	
Unrestricted	9,755,801	8,542,555	(1,504,435)	12,606,191	29,400,112	4,377,385
<b>Total net assets</b>	<b>\$70,209,292</b>	<b>\$15,245,578</b>	<b>(\$279,034)</b>	<b>\$16,207,901</b>	<b>\$101,383,737</b>	<b>\$9,868,727</b>

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, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
<b>OPERATING REVENUES</b>						
Charges for services	\$19,250,227	\$21,642,877	\$1,494,779	\$1,321,579	\$43,709,462	\$8,345,768
Miscellaneous	135,675	83,555			219,230	
<b>Total Operating Revenues</b>	<u>19,385,902</u>	<u>21,726,432</u>	<u>1,494,779</u>	<u>1,321,579</u>	<u>43,928,692</u>	<u>8,345,768</u>
<b>OPERATING EXPENSES</b>						
Cost of goods sold			91,631		91,631	437,977
Housing assistance				9,181,009	9,181,009	
General administrative				749,855	749,855	
Employee services and benefits	5,527,426	572,691		945,578	7,045,695	2,485,444
Materials and services	10,261,611	18,588,548	1,503,768	203,457	30,557,384	3,084,176
Insurance premiums				26,077	26,077	975,991
Depreciation	3,152,566	332,370	160,812	71,520	3,717,268	765,158
<b>Total Operating Expenses</b>	<u>18,941,603</u>	<u>19,493,609</u>	<u>1,756,211</u>	<u>11,177,496</u>	<u>51,368,919</u>	<u>7,748,746</u>
<b>Operating Income (Loss)</b>	<u>444,299</u>	<u>2,232,823</u>	<u>(261,432)</u>	<u>(9,855,917)</u>	<u>(7,440,227)</u>	<u>597,022</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment income	234,792	318,284	(4,964)	169,352	717,464	212,027
Grants from other governments				10,376,212	10,376,212	(5,310)
Interest expense and fiscal charges	(2,481,129)	(282,493)	(12,046)	(9,613)	(2,785,281)	
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(2,246,337)</u>	<u>35,791</u>	<u>(17,010)</u>	<u>10,535,951</u>	<u>8,308,395</u>	<u>206,717</u>
<b>Income (Loss) Before Transfers</b>	<u>(1,802,038)</u>	<u>2,268,614</u>	<u>(278,442)</u>	<u>680,034</u>	<u>868,168</u>	<u>803,739</u>
Connection fees and capital grants	334,125				334,125	
Transfers in (Note 4A)	71,433			627,082	698,515	466,014
Transfers out (Note 4A)	(1,769,820)	(1,483,812)	(30,140)	(143,717)	(3,427,489)	(515,082)
<b>Change in Net Assets</b>	<u>(3,166,300)</u>	<u>784,802</u>	<u>(308,582)</u>	<u>1,163,399</u>	<u>(1,526,681)</u>	<u>754,671</u>
<b>Beginning Net Assets</b>	<u>73,375,592</u>	<u>14,460,776</u>	<u>29,548</u>	<u>15,044,502</u>	<u>102,910,418</u>	<u>9,114,056</u>
<b>Ending Net Assets (Deficit)</b>	<u>\$70,209,292</u>	<u>\$15,245,578</u>	<u>(\$279,034)</u>	<u>\$16,207,901</u>	<u>\$101,383,737</u>	<u>\$9,868,727</u>

See accompanying notes to financial statements

CITY OF NAPA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Golf Course	Housing	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$18,674,881	\$22,385,931	\$1,511,968	\$1,420,733	\$43,993,513	\$8,575,789
Payments to suppliers	(10,760,911)	(18,348,907)	(1,586,015)	(10,019,718)	(40,715,551)	(3,101,055)
Payments for loans				(178,321)	(178,321)	
Payments to or on behalf of employees	(5,486,867)	(565,625)		(945,578)	(6,998,070)	(4,161,129)
Cash Flows from Operating Activities	<u>2,427,103</u>	<u>3,471,399</u>	<u>(74,047)</u>	<u>(9,722,884)</u>	<u>(3,898,429)</u>	<u>1,313,605</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating grants received				10,309,777	10,309,777	42,866
Interfund payments	(334,351)				(334,351)	
Interfund receipts			5,227	203,789	209,016	24,216
Transfers in	71,433			627,082	698,515	466,014
Transfers (out)	(1,769,820)	(1,483,812)	(30,140)	(143,717)	(3,427,489)	(515,082)
Cash Flows from Noncapital Financing Activities	<u>(2,032,738)</u>	<u>(1,483,812)</u>	<u>(24,913)</u>	<u>10,996,931</u>	<u>7,455,468</u>	<u>18,014</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Connection fees and capital grants	334,125				334,125	
Acquisition of capital assets	(11,274,880)	(51,060)	(176,265)	(73,884)	(11,576,089)	(1,123,661)
Proceeds from long-term debt			33,680		33,680	
Principal payments on capital debt	(2,213,795)	(367,885)	(43,047)	(35,390)	(2,660,117)	
Interest paid	(2,488,359)	(290,716)	(12,046)	(9,613)	(2,800,734)	
Cash Flows from Capital and Related Financing Activities	<u>(15,642,909)</u>	<u>(709,661)</u>	<u>(197,678)</u>	<u>(118,887)</u>	<u>(16,669,135)</u>	<u>(1,123,661)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest	304,058	313,331	(3,893)	145,184	758,680	223,234
Cash Flows from Investing Activities	<u>304,058</u>	<u>313,331</u>	<u>(3,893)</u>	<u>145,184</u>	<u>758,680</u>	<u>223,234</u>
Net Cash Flows	(14,944,486)	1,591,257	(300,531)	1,300,344	(12,353,416)	431,192
Cash and cash equivalents at beginning of period	44,241,556	10,322,636	300,531	6,421,327	61,286,050	9,688,844
Cash and cash equivalents at end of period	<u>\$29,297,070</u>	<u>\$11,913,893</u>		<u>\$7,721,671</u>	<u>\$48,932,634</u>	<u>\$10,120,036</u>
<b>Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:</b>						
Operating income (loss)	\$444,299	\$2,232,823	(\$261,432)	(\$9,855,917)	(\$7,440,227)	\$597,022
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation	3,152,566	332,370	160,812	71,520	3,717,268	765,158
Change in assets and liabilities:						
Receivables, net	(726,670)	(258,769)	4,012	95,308	(886,119)	230,021
Prepaid items & inventory			12,358		12,358	
Other assets						37,574
Accounts payable and other accrued expenses	(499,300)	239,641	(2,974)	140,680	(121,953)	162,574
Claims payable						220,950
Net OPEB Obligation						(705,681)
Deposits payable	15,649	918,268	13,177	(45,622)	901,472	
Deferred revenue				(128,853)	(128,853)	
Vacation and sick leave payable	40,559	7,066			47,625	5,987
Cash Flows from Operating Activities	<u>\$2,427,103</u>	<u>\$3,471,399</u>	<u>(\$74,047)</u>	<u>(\$9,722,884)</u>	<u>(\$3,898,429)</u>	<u>\$1,313,605</u>

See accompanying notes to financial statements

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

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

**Payroll Fund**

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

**Napa Valley Corporate Park Assessment District Fund**

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

CITY OF NAPA  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2010

	Agency Funds
<b>ASSETS</b>	
Cash and investments (Note 3)	\$2,241,702
Restricted cash and investments (Note 3)	214,506
Accounts receivable	425
Interest receivable	97,091
Total Assets	\$2,553,724
<b>LIABILITIES</b>	
Accounts payable	\$1,690,695
Due to bondholders	863,029
Total Liabilities	\$2,553,724

See accompanying notes to financial statements

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

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

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

*The Parking Authority of the City of Napa (the Parking Authority)* was established pursuant to the Streets and Highways Code of the State of California. The City Council established the Parking Authority on April 27, 1970 and designated itself as the governing body. The primary purpose of the Authority is to acquire, maintain and operate off-street parking facilities within the City. The Parking Authority reports no financial transactions during the year ended June 30, 2010.

*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, 2010.

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

Napa Community Redevelopment Agency  
1600 Clay Street  
Napa, California 94559

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

***B. Basis of Presentation***

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

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

**Government-wide Statements** include the *Statement of Net Assets* and the *Statement of Activities*, and report the financial activities of the overall City using an economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the City. Direct expenses are those that are specifically associated with a program or function. Certain indirect costs are included in program expenses reported for individual functions and activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) operating grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) capital fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

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

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

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

*C. Major Funds*

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

The City also reports the following fund types:

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

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

***D. Basis of Accounting***

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

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

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

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

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

***E. Cash and Investments***

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

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

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

***F. Tax Revenue***

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

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

***G. Inventories***

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

***H. Capital Assets***

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

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

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

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

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

***I. Compensated Absences***

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

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$7,111,503	\$739,040	\$7,850,543
Net change	331,946	47,625	379,571
Ending balance	\$7,443,449	\$786,665	\$8,230,114
Current portion	\$193,294	\$41,408	\$234,702

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

Employees accumulate sick leave hours which upon retirement may be converted to service credit for CalPERS retirement benefits or used to fund retiree health insurance premiums. Compensated absence liabilities include an estimate of these accumulated sick leave hours which are discounted based on historical termination patterns. Accrued sick leave benefits represent an estimate of hours employees reaching retirement may convert. Upon retirement employees select which conversion option they wish to apply their accumulated sick leave hours to and at that time the value of those converted hours is eliminated.

**NOTE 2 – BUDGETARY INFORMATION**

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

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

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

The budget is prepared at the fund, function and department levels. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to make transfers between the departments. All other adjustments or changes require City Council approval. The legal level of budgetary control is the department level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year. Supplemental appropriations during the year ended June 30, 2010, 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 OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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

**A. Deposits**

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

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

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

Cash and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Cash and investments available for operations	\$89,343,385
Restricted cash and investments	<u>29,926,775</u>
City cash and investments	119,270,160
Cash and investments available for operations in	
Fiduciary Funds (Separate Statement)	2,241,702
Restricted cash and investments in	
Fiduciary Funds (Separate Statement)	<u>214,506</u>
Total cash and investments	<u>\$121,726,368</u>

**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.

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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	\$40,000,000	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%

**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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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

The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments as of June 30, 2010, by maturity:

Type of Investments	Less Than One Year	One to Three Years	Three to Five Years	Total
Local Agency Investment Fund	\$30,508,494			\$30,508,494
California Asset Management Program	16,595,947			16,595,947
U.S. Treasury Notes		\$6,506,317	\$1,133,693	7,640,010
Corporate Notes	301,245	8,434,952	5,280,433	14,016,630
Money Market Funds (U.S. Securities)	5,325,421			5,325,421
Federal Agency Securities	6,699,934	13,918,748	12,973,443	33,592,125
Total Investments	<u>\$59,431,041</u>	<u>\$28,860,017</u>	<u>\$19,387,569</u>	107,678,627
<i>Cash in banks and on hand</i>				<u>14,047,741</u>
Total Cash and Investments				<u>\$121,726,368</u>

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

Credit Risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as June 30, 2010, for each investment type.

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-/A1/A1+	Total
<i>Held by Trustees:</i>				
California Asset Management Program	\$16,595,947			\$16,595,947
Corporate Notes	5,036,977	\$5,216,921	\$3,762,732	14,016,630
Money Market Funds (U.S. Securities)	5,325,421			5,325,421
Federal Agency Securities	33,592,125			33,592,125
Total	<u>\$60,550,470</u>	<u>\$5,216,921</u>	<u>\$3,762,732</u>	69,530,123
<i>Not Rated:</i>				
Local Agency Investment Fund				30,508,494
<i>Exempt from credit rating disclosure:</i>				
U.S. Treasury Notes				7,640,010
<i>Cash in banks and on hand</i>				<u>14,047,741</u>
Total Cash and Investments				<u>\$121,726,368</u>

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2010, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

***G. Concentration of Credit Risk***

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total investments in Entity-wide, individual major funds, non-major funds in the aggregate, or fiduciary fund type investments are as follows at June 30, 2010:

<u>Reporting Unit</u>	<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
<b>Entity - Wide:</b>	Federal National Mortgage Association	Federal Agency Securities	\$10,212,300
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,406,628
<b>Major Proprietary Funds:</b>			
Water Enterprise fund	Federal Home Loan Bank	Federal Agency Securities	4,051,875

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. Transfers**

Transfers report the contribution of resources from one fund to another. The following is a summary of transfers for the year ended June 30, 2010:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
<b>General Fund</b>	Development Fees Fund	\$760
	Home Program Fund	16,695
	City Capital Projects Fund	344,144
	Water Utility Fund	1,692,064
	Materials Diversion Utility Fund	733,812
	Golf Course Fund	30,140
	Housing Fund	70,386
	Non-Major Governmental Funds	475,010
	Internal Service Funds	515,082
	<b>Home Program Fund</b>	Housing Fund
<b>City Capital Projects Fund</b>	General Fund	252,649
	Development Fees Fund	1,412,048
	Non-Major Governmental Funds	2,264,553
<b>Water Utility Fund</b>	Non-Major Governmental Funds	71,433
<b>Housing Fund</b>	Non-Major Governmental Funds	627,082
<b>Non-major Governmental Funds</b>	General Fund	162,682
	Development Fees Fund	160,936
	City Capital Projects Fund	210,000
	Materials Diversion Utility Fund	750,000
	Non-Major Governmental Funds	6,220,304
<b>Internal Service Funds</b>	General Fund	136,446
	Water Utility Fund	77,756
	Non-Major Governmental Funds	251,812
Total Interfund Transfers		\$16,549,125

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 4 – INTERFUND TRANSACTIONS (Continued)**

***B. Interfund Balances***

Interfund balances are loans between funds to provide either short-term cash flow or funding for longer-term projects. The following is a summary of interfund balances as of June 30, 2010:

From Fund:	To Fund:	Amount
Due to/from other funds:		
General Fund	Home Program Fund	\$19,873
	Golf Course Fund	35,827
	Internal Service Funds	359,549
Housing Fund	Redevelopment Parkway Plaza Special Revenue Fund	25,975
Redevelopment Parkway Plaza Debt Service Fund	Redevelopment Parkway Plaza Capital Projects Fund	2,509,542
		\$2,950,766
Advances to/from other funds:		
General Fund	Golf Course Fund	\$482,850 (A)
Development Fees Fund	Golf Course Fund	244,800 (B)
City Capital Projects Fund	Golf Course Fund	675,000 (A)
Water Utility Fund	Soscol Gateway Debt Service Fund	768,149 (C)
City Debt Service Fund	State Help Program Fund	1,000,000 (D)
		\$3,170,799

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

***C. Internal Balances***

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 5 – LOANS RECEIVABLE**

The City has extended long-term loans to support affordable housing and economic development. All loans are secured by real estate. Since some of these loans are secured by trust deeds which are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may be not be realized. As a result, a portion of the outstanding balances of the loans has been offset by a valuation allowance. These long-term loans receivable consisted of the following at June 30, 2010:

	Term (Years)	Rate %	Outstanding Balance at June 30, 2010
Home Program:			
First time homebuyers down payment assistance	20-30	3%	\$6,767,074
The Reserve at Napa	30	3%	874,000
CDBG Housing Rehabilitation Program	20	3-10%	1,299,283
20% Low- and Moderate Income Housing:			
Mayacamas Village Associates	30	4%	485,766
Napa Park Apartments	30	3%	254,805
Parkwood Project	40		100,942
Silverado Creek Apartments	45	3.5%	3,085,649
Pecan Court Project	40	4%	735,067
Schoolhouse Project	40		591,166
First time homebuyers down payment assistance	20-30	3%	306,200
Jefferson Street Senior Housing (NVCH)	40-41/60	0-3.5%	300,000
Napa Garden Court	55	4%	1,540,000
Rohlffs Concordia Manor	55	1%	785,000
Rohlffs Manor III	55	3%	250,000
Local Housing Fund:			
- Pioneer Village	various	7%	155,130
- Pueblo Orchard	10	3.5%	50,000
- Charter Oaks	25	3.5%	237,500
RDA Supplemental - Bain, Thomas			125,100
Housing and Inclusionary Fund :			
- Magnolia Park	55	3.5%	300,000
- Jefferson Street Housing (NVCH) - City	60		514,431
- Napa Garden Court Associates	5	3%	230,000
- County of Napa	55		500,000
- Coombsville (NVCH)	55	4%	13,617
Help Grant 2002 - Coombsville (NVCH)	3	3%	220,000
Help Grant 2005	5	3%	600,000
Cal Home Grant	5	3%	105,000
Whistle Stop Town homes	35	3.5%	44,000
Magnolia Park	55	3.5%	221,125
Napa Valley Destination Council	1		35,000
Water Loan			
American Canyon Loan	5	4%	<u>350,000</u>
Totals, before interest and valuation allowance			21,075,855
Accrued Interest			1,890,610
Valuation allowance			<u>(7,100,409)</u>
Net			<u><u>\$15,866,056</u></u>

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 6 – LAND HELD FOR REDEVELOPMENT**

The City and Agency owned land held for redevelopment of \$1,023,133, representing a parking lot on Clay Street purchased by the Agency in fiscal year 2008. The parking lot is currently operated by the City as a public parking lot. It will continue to operate as a public parking lot for the time being until the Agency determines whether to develop or retain it for future affordable housing or as surface parking. This property was reported as part of capital assets at June 30, 2010.

As of June 30, 2010, the balance of land being held for future development amounted to \$125,691. However, the City and Agency have not entered into development agreement as of June 30, 2010.

**NOTE 7 – CAPITAL ASSETS**

**A. Additions and Retirements**

Governmental-type capital assets activity for the year ended June 30, 2010 was as follows:

	Balance at June 30, 2009	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2010
<i>Governmental Activities</i>					
Capital assets not being depreciated:					
Land	\$21,667,636	\$1,320,227	(\$1,000)		\$22,986,863
Construction in progress	62,715,824	13,447,379		(\$3,106,111)	73,057,092
Total capital assets not being depreciated	84,383,460	14,767,606	(1,000)	(3,106,111)	96,043,955
Capital assets being depreciated:					
Building and improvements	27,372,243		(296,643)	290,000	27,365,600
Equipment	5,877,339	74,536			5,951,875
Vehicles and rentals	12,496,035	1,747,179	(838,030)		13,405,184
Bridges	28,066,680				28,066,680
Roads	393,670,146	2,265,312		2,816,111	398,751,569
Curb/gutter/sidewalks	5,371,565				5,371,565
Traffic signals	4,261,512				4,261,512
Stormwater	4,428,822				4,428,822
Park improvements	4,508,858				4,508,858
Underground Utilities	64,761				64,761
Street Lights	1,370,804	36,867			1,407,671
Total capital assets being depreciated	487,488,765	4,123,894	(1,134,673)	3,106,111	493,584,097
Less accumulated depreciation for:					
Building and improvements	(14,354,964)	(642,413)			(14,997,377)
Equipment	(5,143,195)	(283,527)			(5,426,722)
Vehicles and rentals	(7,964,100)	(749,020)	838,030		(7,875,090)
Bridges	(8,259,217)	(374,222)			(8,633,439)
Roads	(185,692,056)	(10,106,884)			(195,798,940)
Curb/gutter/sidewalks	(412,840)	(134,290)			(547,130)
Traffic signals	(438,031)	(106,539)			(544,570)
Stormwater	(200,033)	(106,163)			(306,196)
Park improvements	(1,146,795)	(215,916)			(1,362,711)
Underground Utilities	(2,994)	(1,619)			(4,613)
Street Lights	(68,442)	(35,270)			(103,712)
Total accumulated depreciation	(223,682,667)	(12,755,863)	838,030		(235,600,500)
Net capital assets being depreciated	263,806,098	(8,631,969)	(296,643)	3,106,111	257,983,597
Governmental activities capital assets, net	\$348,189,558	\$6,135,637	(\$297,643)		\$354,027,552

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

Business-type capital assets activity for the year ended June 30, 2010 was as follows:

	Balance at June 30, 2009	Additions	Retirement	Balance at June 30, 2010
<b><i>Business-type Activities</i></b>				
Capital assets not being depreciated:				
Land and improvements	\$5,506,614			\$5,506,614
Construction in progress	28,002,624	\$11,175,744		39,178,368
Total capital assets not being depreciated	<u>33,509,238</u>	<u>11,175,744</u>		<u>44,684,982</u>
Capital assets being depreciated:				
Building and improvements	41,437,641	96,760		41,534,401
Equipment	5,256,266	281,468	(\$34,373)	5,503,361
Transmission and distribution	103,823,782		(3,260,974)	100,562,808
Total capital assets being depreciated	<u>150,517,689</u>	<u>378,228</u>	<u>(3,295,347)</u>	<u>147,600,570</u>
Less accumulated depreciation for:				
Building and improvements	(18,866,362)	(1,191,010)		(20,057,372)
Equipment	(2,103,762)	(291,389)		(2,395,151)
Transmission and distribution	(40,946,591)	(2,178,379)	3,260,974	(39,863,996)
Total accumulated depreciation	<u>(61,916,715)</u>	<u>(3,660,778)</u>	<u>\$3,260,974</u>	<u>(62,316,519)</u>
Net capital assets being depreciated	<u>88,600,974</u>	<u>(3,282,550)</u>	<u>(34,373)</u>	<u>85,284,051</u>
Business-type activities capital assets, net	<u>\$122,110,212</u>	<u>\$7,893,194</u>	<u>(\$34,373)</u>	<u>\$129,969,033</u>

**B. Depreciation Allocation**

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

Governmental activities		Business-type activities	
General government	\$117,328	Water utility	\$3,152,566
Public safety	316,091	Garbage	332,370
Public works	10,908,406	Golf course	160,812
Parks and recreation	377,930	Housing	71,520
Redevelopment	270,950		
Internal service funds	765,158	Total	<u>\$3,717,268</u>
Total	<u>\$12,755,863</u>		

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 8 – OPERATING LEASES**

The City entered into a building space rental agreement with Robert Louis Stevenson Plaza Associates on September 28, 2007. The term of this lease commenced on October 1, 2007 and shall expire September 30, 2010. The costs for this lease for the fiscal year ended June 30, 2010, was \$20,256.

The operators of the golf course entered into a leasing agreement with Yamaha Motor Corporation for 75 golf carts on July 5, 2007, with a term of 5 years and a minimum monthly payment of \$3,813 commencing September 2007 and ending August 2012. The operator is also leasing its telephone equipment and copier on a month-to-month basis. Total equipment lease expense was \$48,672 for the year ended June 30, 2010.

The future minimum lease payments are as follows:

Year Ending June 30	Payments
2010	\$68,928
2011	53,736
2012	48,672
2013	10,542
2014	2,674
Total	<u>\$184,552</u>

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

**NOTE 9 – LONG-TERM DEBT**

**A. Current Year Transactions and Balances**

The following table summarizes the changes in the City's long-term debt and other non-current liabilities during the year ended June 30, 2010:

	Original Issue Amount	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
<b>Governmental Activity Debt:</b>						
<b>Redevelopment Tax Allocation Bonds</b>						
2003A Parkway Plaza Redevelopment Project, 2.3-4.8%, due 9/1/2019	\$22,715,000	\$18,735,000		(\$1,290,000)	\$17,445,000	\$1,365,000
2003B Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,475,000	1,870,000		(140,000)	1,730,000	130,000
2003B Refunding Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,050,000	<u>1,565,000</u>		(105,000)	<u>1,460,000</u>	<u>120,000</u>
Total Redevelopment Tax Allocation Bonds		<u>22,170,000</u>		<u>(1,535,000)</u>	<u>20,635,000</u>	<u>1,615,000</u>
Landbanking Note Payable, 3%, due 1/13/2012	1,000,000	1,216,000	\$30,000		1,246,000	
Fleet Capital Fund Capital Lease, 3.5%, 2/1/15	328,846		<u>328,846</u>		<u>328,846</u>	<u>87,696</u>
Total Governmental Activities Debt		<u>\$23,386,000</u>	<u>\$358,846</u>	<u>(\$1,535,000)</u>	<u>\$22,209,846</u>	<u>\$1,702,696</u>
<b>Business-type Activity Debt:</b>						
<b>Revenue Bonds</b>						
2001 Water Revenue Refunding Bonds, 3.25-4.0%, repaid 5/1/2010	\$10,580,000	\$1,365,000		(\$1,365,000)		
Less unamortized discount/issuance cost		(144,378)		144,378		
2004 Solid Waste Revenue Bonds, 1.59-5.63%, due 8/1/2019	7,035,000	5,465,000		(390,000)	\$5,075,000	\$410,000
Less unamortized discount		(320,679)		22,116	(298,563)	
2007 Water Revenue Bonds 4-5%, due 5/1/2035	47,350,000	47,350,000			47,350,000	1,050,000
Plus unamortized premium (issuance cost)		<u>1,304,142</u>		(139,730)	<u>1,164,412</u>	
Total revenue bonds		<u>55,019,085</u>		<u>(1,728,236)</u>	<u>53,290,849</u>	<u>1,460,000</u>
Water Fund Note Payable - Alston Park Tank 2.6%, due 4/1/2023	3,080,000	2,283,884		(143,231)	2,140,653	146,981
Seminary Street, 5.5%, due 7/31/2027	1,244,000	1,048,963		(35,390)	1,013,573	37,415
Umpqua Bank Notes Payable - Solar Panel 4.37%, due 7/01/2025	1,400,000	1,230,696		(54,057)	1,176,639	56,478
State of CA-Dept of Water Resources Notes Payable Imola Avenue reservoir tank 2.4%, due 9/30/2026	2,976,131	2,699,750		(125,798)	2,573,952	128,835
Water Fund Capital Lease, 4.7% due 6/30/2035	29,014,737	21,682,373		(530,358)	21,152,015	555,354
Kennedy Park Golf Course Capital Lease, 4.34% due 6/30/2015		<u>159,466</u>	<u>\$33,680</u>	<u>(43,047)</u>	<u>150,099</u>	<u>43,703</u>
Total Business-type Activity Debt		<u>\$84,124,217</u>	<u>\$33,680</u>	<u>(\$2,660,117)</u>	<u>\$81,497,780</u>	<u>\$2,428,766</u>

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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

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

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

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

The Pledge of future Agency tax increment revenues ends upon payment of the \$21.9 million in remaining debt service on the Redevelopment Agency's long-term debt which is scheduled to occur in 2020. As disclosed in the originating offering documents, pledged future tax increment revenues are expected to provide coverage over debt service of 1.7 over the life of the long-term debt. For fiscal year 2010, Agency tax increment revenue amounted to \$5,222,861 which represented coverage of 3.0 times over the \$2,085,619 in debt service.

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

The Pledge of future Housing tax increment revenues ends upon payment of the \$3.6 million in remaining debt service on the Redevelopment Agency's long-term debt which is scheduled to occur in 2020. As disclosed in the originating offering documents, pledged future tax increment revenues are expected to provide coverage over debt service of 8.3 over the life of the long-term debt. For fiscal year 2010 Housing tax increment revenue amounted to \$1,074,157 which represented coverage of 2.6 times over the \$415,815 in debt service.

***C. Landbanking Note Payable***

The City borrowed \$781,487 in 2001 as its initial draw on a \$1 million loan commitment from the State of California for the purchase of land to be held for affordable housing development. The remaining loan commitment of \$218,513 was drawn during the year ended June 30, 2003, to provide funds for an affordable housing development loan. The note accrues and defers 3% interest. Principal and interest are due in 2012.

***D. Fleet Capital Lease***

The City entered into a lease agreement in fiscal year 2009-10 for an asphalt paver. The lease agreement qualifies as capital leases for accounting purposes, and, therefore has been recorded at the present value of future minimum lease payments as of the inception date. The leased asset has a capitalized cost of 328,847.

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

*E. Water Fund Obligations*

The City issued **2001 Water Revenue Refunding Bonds** in the original principal amount of \$10,580,000 on June 12, 2001. The bond proceeds were issued to provide funds to repay the 1993 Water Revenue Bonds and to pay the costs of issuing the Bonds. Principal payments are payable annually on May 1. The debt bears interest ranging from 3.25% to 4% and is payable semi-annually on October 1 and May 1. The debt is secured by a pledge of the net revenues of the Water Utility. The bonds were fully repaid as of June 30, 2010.

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

The pledge of future Water System Revenues ends upon repayment of the \$82.4 million in remaining debt service which is scheduled to occur in 2035. For fiscal year 2010, Water Fund Revenues including operating revenues and non-operating interest earnings amounted to \$19.6 million and operating costs include operating expenses, but not interest, depreciation or amortizations and amounted to \$13.3 million. Net Revenues available for debt service amounted to \$6.3 million which represented coverage of 2.81 over the \$2.2 million in debt service.

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

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

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

**CITY OF NAPA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

**Water Fund Capital Lease** – The City has a water supply contract with the Water District that is linked to a master contract between the Water District and the State of California. Under these contracts, the State of California built the North Bay Aqueduct and peripheral infrastructure and allocated the costs to the benefiting municipalities. The contract calls for an annual payment that includes capital and operating components as well as a charge for water. The contract is non-cancelable and expires in the year 2035. Under the terms of the contract, the City is liable for the capital components regardless of whether or not it receives water. For this reason, the City is treating this contract as a capital lease. The leased infrastructure has been capitalized together with the capital lease obligation. The implicit interest rate under the contract is approximately 4.7%. The infrastructure is being amortized over its useful life of 50 years. At June 30, 2010, the balance of the leased asset (representing use of the infrastructure and water rights) and related capital lease obligation was \$14,507,360 and \$21,152,015 respectively. Annual amortization of the asset is \$580,358. The contract bears an implicit interest rate at approximately 4.7%, payable through 2035.

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

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

The pledge of future Solid Waste System Revenues ends upon repayment of the \$6.7 million in remaining debt service on the bonds which is scheduled to occur in 2020. As disclosed in the originating offering documents, projected net revenues are expected to provide coverage over debt service of 28.4 over the life of the bonds. For fiscal year 2010, Solid Waste System Revenues including operating revenues and non-operating interest earnings amounted to \$22 million and operating costs include operating expenses, but not interest, depreciation or amortizations and amounted to \$19.66 million. Net Revenues available for debt service amounted to \$2.38 million which represented coverage of 3.48 over the \$0.6 million in debt service.

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

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