

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

NOTE 9 – LONG-TERM DEBT (Continued)

H. Kennedy Park Golf Course Capital Lease

The operators of the golf course operations have entered into lease agreements for golf carts and some maintenance equipment. These lease agreements qualify as capital leases for accounting purposes, and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date. Leased assets have a capitalized cost of \$170,485.

I. Debt Service Requirements

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

Fiscal year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$1,702,696	\$921,188	\$2,428,766	\$3,721,377
2012	3,041,772	1,067,426	2,517,788	3,621,046
2013	1,865,772	778,829	2,668,482	3,513,317
2014	1,980,772	699,141	2,703,458	3,402,620
2015	2,053,834	607,378	2,826,426	3,276,197
2016-2020	11,565,000	1,901,884	15,683,555	14,311,582
2021-2025			15,148,430	10,770,844
2026-2030			16,595,520	7,259,815
2031-2035			20,059,506	2,923,565
Total	<u>\$22,209,846</u>	<u>\$5,975,846</u>	\$80,631,931	<u>\$52,800,363</u>
Less unamortized premium (discount/issuance cost)			<u>865,849</u>	
Net long-term debt			<u>\$81,497,780</u>	

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

NOTE 10 – SPECIAL ASSESSMENT DEBT

Napa Valley Corporate Park Reassessment District No. 1997-1 bonds were issued in 1997 and refinanced in 2001. The bonds are limited obligations of the City secured by assessments against properties in the assessment district. The debt bears interest ranging from 3.1% to 5.2%, paid semi-annually through 2011. The bonds are repaid from assessment installments levied annually against the subject property. The City is not obligated to advance any available City funds to cover any deficiency that may occur in the redemption fund by reason of the failure of a property owner to pay a reassessment installment. Funds held in trust for the bonds are accounted for in the Agency fund. This bond issue does not constitute or create an indebtedness of the City or a debt or pledge of its general credit for taxing power. Accordingly, it is not recorded in the accompanying financial statements. Principal outstanding at June 30, 2010, was \$1,105,000

A Mortgage Revenue Bonds

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

Year of Issue	Project	Original Principal	Maturity Date	Principal at June 30, 2010
City of Napa				
1992	Creekside Park A	\$2,890,000	July 1, 2024	\$2,050,000
1994	Creekside Park II A - Refunding	4,780,000	July 1, 2025	3,760,000
1995	Napa Park A, A-T, and A-IQ	7,100,884	June 20, 2035	5,325,884
	subtotal	14,770,884		11,135,884
Housing Authority				
1999	Silverado Creek A	4,863,000	June 1, 2031	4,183,000
2001	Vintage at Napa	7,500,000	June 15, 2034	6,350,000
2001	The Reserve at Napa	6,000,000	August 1, 2031	5,249,595
2001	Charter Oaks Apartments	4,215,000	August 1, 2018	3,709,311
2004	Magnolia Park Series 2004A	4,500,000	December 1, 2035	4,500,000
	subtotal	27,078,000		23,991,906
	Total	\$41,848,884		\$35,127,790

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

NOTE 11 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three categories and are described below:

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

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

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

B. Fund Balance

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reservations

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds for the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

Reserve for **bond projects** is the portion of fund balance legally restricted for the projects defined by the bond's official statement.

Reserves for **advances, prepaids, and land held for redevelopment and loans receivable** are the portions of fund balance that are not available for appropriation due to the funds being advances to other City funds and assets committed for future expenses.

D. Designations

Designated for emergency reserve is approximately 12% of the General Fund's annual budget and is to be used for responses to emergencies or continuity of service delivery in an economic downturn.

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

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

E. Deficit Net Assets and Fund Balance

As of June 30, 2010, the Soscol Gateway Debt Service Fund, State Help Program Capital Projects Fund, and the Golf Course Enterprise Fund had fund deficits amounting to \$283,373, \$948,585, and \$279,034, respectively. The deficits will be eliminated with future revenue.

F. Fund Restructure

During fiscal year 2009-10, the City elected to recategorize certain development related funds formerly accounted for as part of the Development Fees Special Revenue Fund into the Housing Inclusionary Special Revenue Fund. The effect of this change as of July 1, 2009 was to decrease the Development Fees Special Revenue Fund fund balance by \$3,867,959 and increase the Housing Inclusionary Special Revenue Fund fund balance by the same amount.

The City also eliminated the CDBG Housing Rehabilitation Program Special Revenue Fund (fund balance of \$920,297 as of July 1, 2009) and combined it into the Community Development Block Grant Special Revenue Fund (fund deficit of \$320,415 as of July 1, 2009).

NOTE 12 – EMPLOYEE RETIREMENT SYSTEM

A. Plan Description

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

B. Funding Policy

Active plan members in the City of Napa Retirement System are required to contribute 7.996% for miscellaneous employees or 9% for public safety employees of their annual covered salary. The City of Napa is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2010 was 17.194% for miscellaneous employees and 28.401% for public safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

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

NOTE 12 – EMPLOYEE RETIREMENT SYSTEM (Continued)

C. Annual Pension Cost

For the year ended June 30, 2010, the City’s annual pension cost was \$8,080,906. The required contribution for that year was determined as part of the June 30, 2009, actuarial valuation using the entry age normal cost method for miscellaneous employees and entry age normal cost method for safety employees with the contributions determined as a percent of pay, as amended in November, 2002 for a change in the safety plan benefit formula. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members (from 3.55% to 13.15% for safety members), and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%.

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

D. Trend Information

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
Miscellaneous	6/30/2008	\$3,270,845	100%
	6/30/2009	3,634,648	100%
	6/30/2010	3,802,023	100%
Public Safety	6/30/2008	\$4,139,474	100%
	6/30/2009	4,358,353	100%
	6/30/2010	4,278,883	100%

E. Defined Contribution Plans

The City also provides defined contribution retirement benefits through IRS section 401(a) and 457 plans. The plans are administered by the International City Management Association Retirement Corporation and Nationwide Retirement Solutions. Plan provisions and contribution requirements are established and may be amended by City Council through negotiation with employee associations. The City contributes from \$50 to \$300 per month to its non-safety and management employees, depending upon employee group. During the year ended June 30, 2010, the City fully funded its required contributions of \$294,638 to these plans.

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

NOTE 12 – EMPLOYEE RETIREMENT SYSTEM (Continued)

F. Funding Status

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

	Valuation Date	Entry Age		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
		Normal Accrued Liability	Actuarial Value of Assets				
Miscellaneous	2007	\$128,087,922	\$103,257,145	\$24,830,777	81%	\$19,618,320	127%
	2008	137,027,867	111,503,700	25,524,167	81%	20,425,702	125%
	2009	153,662,781	117,056,361	36,606,420	76%	21,714,083	169%
Public Safety	2007	\$130,205,726	\$105,096,335	\$25,109,391	81%	\$13,404,437	187%
	2008	140,706,318	112,928,449	27,777,869	80%	14,984,116	185%
	2009	152,758,690	118,719,972	34,038,718	78%	15,376,152	221%

NOTE 13 – POST-EMPLOYMENT HEALTH BENEFITS

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

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

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

² Per City. MOU does not specify a cap for this group.

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

NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy and Actuarial Assumptions

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

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2010, the City contributed \$793,681 and pre-funded \$1,500,000. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below:

	<u>Retiree Health Benefits Internal Service Fund - Governmental Activities</u>
Annual required contribution (ARC) and Annual OPEB cost	\$1,558,000
Amortization on the Net OPEB Liability	(121,000)
Interest on the Net OPEB Liability	151,000
Adjustment to annual required contribution	30,000
Annual Pension Cost	1,588,000
Contributions made:	
City portion of current year premiums paid	(793,681)
Contribution to CERBT Trust	(1,500,000)
Contributions more than the ARC	(705,681)
Net OPEB Obligation at June 30, 2009	1,942,747
Net OPEB Obligation at June 30, 2010	\$1,237,066

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

NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)

The City's annual required contributions and actual contributions for the years ended June 30, 2010 are set forth below (in thousands):

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$1,683,000	\$731,739	43%	\$951,261
6/30/2009	1,757,087	765,601	44%	1,942,747
6/30/2010	1,558,000	2,293,681	147%	1,237,066

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the December 31, 2010, actuarial study is presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A – B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]</u>
6/30/2006	\$0	\$23,680,000	(\$23,680,000)	0.00%	\$32,027,000	-73.94%
6/30/2008	0	25,184,000	(25,184,000)	0.00%	33,068,000	-76.16%
12/31/2009	0	10,922,000	(10,922,000)	0.00%	25,259,000	-43.24%

NOTE 14 – RISK MANAGEMENT

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

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

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

NOTE 14 – RISK MANAGEMENT (Continued)

The City has retained an independent actuary to perform an analysis of the City’s potential liability for the City’s self-insured portions of the general liability and workers’ compensation programs. The amount recorded as a liability is the specific reserves for individual known claims or lawsuits not covered under the general liability or the workers’ compensation insurance program and estimates for incurred but not reported claims. The actuarial analysis uses a rate of 5% for general liability and workers’ compensation to discount future investment earnings. Claims liability has been recorded at an 80% confidence level.

Below is a reconciliation of changes in the aggregate liabilities for claims for the fiscal years ending June 30, 2009 and 2010:

	2010	2009
Claims liability - beginning	\$4,419,000	\$4,170,600
Changes in estimates for claims in prior years	1,007,681	1,819,268
Payments on claims	(786,731)	(1,570,868)
Claims liability - ending	\$4,639,950	\$4,419,000
Current portion	\$1,362,900	\$1,298,000

NOTE 15 – JOINT POWERS AGREEMENT

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

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

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

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

NOTE 16 – CONTINGENT LIABILITIES

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

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

The City has a number of material construction contracts that are in process or are set to go into production. The total of these contracts as of June 30, 2010, is \$13,788,497.

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

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

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

Based on the formula mandated by AB26 4X, the Agency's SERAF payment is estimated to be \$298,987 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The obligation to make the SERAF payment is subordinate to obligations to repay bonds, however if the Agency fails to make the SERAF payment the Agency may not encumber or expend future funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF is paid in full.

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

NOTE 18 – PROPOSITION 1A SECURITIZATION

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes apportioned to the City. The state is required to repay the \$1,975,591 it borrowed from the City plus interest by June 30, 2013.

Authorized with the 2009-10 State budget package was the Proposition 1A Securitization Program, administered by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the City receives cash equal to its share of State borrowings and forgoes interest it otherwise would have received from the State on the unpaid borrowings. The City is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the City and other participants and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010, and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the City received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the City equal the book value of state borrowings and no gain or loss was incurred.

NON-MAJOR GOVERNMENTAL FUNDS

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

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

Parkway Plaza Low-and-Mod Income Housing

Soscol Gateway Low-and-Mod Income Housing

Assessment Districts

Community Development Block Grant

Traffic

Parking

Cal Home Grant

Housing Inclusionary Program

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

City Debt Service

Parkway Plaza Debt Service

Soscol Gateway Debt Service

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

State Help Program

Street Resurfacing Projects

Parkway Plaza Capital Projects

Soscol Gateway Capital Projects

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

	SPECIAL REVENUE FUNDS			
	Redevelopment Low- and-Mod			Community Development Block Grant
	Parkway Plaza	Soscol Gateway	Assessment Districts	
ASSETS				
Cash and investments		\$285,243	\$3,610,843	\$639,426
Restricted cash and investments	\$452,210			
Receivables:				
Accounts receivable			875	185,217
Federal, state and other governments			7,938	
Interest receivable	6,390	1,139	10,010	1,655
Loans receivable				1,169,356
Due from other funds				
Prepays				
Advances to other funds				
Land held for redevelopment				
Total Assets	<u>\$458,600</u>	<u>\$286,382</u>	<u>\$3,629,666</u>	<u>\$1,995,654</u>
LIABILITIES				
Accounts payable and accrued liabilities			\$9,457	\$46,548
Deposits payable			258,418	15,561
Due to other funds	\$25,975			
Deferred revenue				1,169,356
Advances from other funds				
Total Liabilities	<u>25,975</u>		<u>267,875</u>	<u>1,231,465</u>
Fund balances (Deficit):				
Reserved for encumbrances	2,190		1,897,959	599,884
Reserved for debt service				
Reserved for bond projects	430,435			
Reserved for advances to other funds				
Reserved for land held for redevelopment				
Reserved for prepaid items				
Reserved for loans receivable				
Unreserved:				
Undesignated, reported in:				
Special Revenue Fund		\$286,382	1,463,832	164,305
Debt Service Fund				
Capital Projects Fund				
Total Fund Balances (Deficit)	<u>432,625</u>	<u>286,382</u>	<u>3,361,791</u>	<u>764,189</u>
Total Liabilities and Fund Balances	<u>\$458,600</u>	<u>\$286,382</u>	<u>\$3,629,666</u>	<u>\$1,995,654</u>

DEBT SERVICE FUND

Traffic	Parking	CAL Home Grant	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
\$3,034,744	\$4,710,404	\$16,216	\$4,202,556		\$563,238 2,351,610	\$677,300
286,573			17,158		5,625	
	5,471				356,201	38,963
6,580	13,440	62	12,696		48,419	2,778
		94,854	1,083,319			
		11,097			2,509,542	
				\$1,000,000		
125,691						
<u>\$3,453,588</u>	<u>\$4,729,315</u>	<u>\$122,229</u>	<u>\$5,315,729</u>	<u>\$1,000,000</u>	<u>\$5,834,635</u>	<u>\$719,041</u>
\$45,375	\$120,642 3,687,167		\$19,163		\$626,493	\$211,463
		\$94,854	1,083,319		148,106	22,802 768,149
45,375	3,807,809	94,854	1,102,482		774,599	1,002,414
	875,586		17,141		2,351,610	
				\$1,000,000		
125,691		11,097				
3,282,522	45,920	16,278	4,196,106		2,708,426	(283,373)
3,408,213	921,506	27,375	4,213,247	1,000,000	5,060,036	(283,373)
<u>\$3,453,588</u>	<u>\$4,729,315</u>	<u>\$122,229</u>	<u>\$5,315,729</u>	<u>\$1,000,000</u>	<u>\$5,834,635</u>	<u>\$719,041</u>

(Continued)

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS

	CAPITAL PROJECT FUNDS				Total Nonmajor Governmental
	State Help Program	Street Resurfacing	Redevelopment		
			Parkway Plaza	Soscol Gateway	
ASSETS					
Cash and investments	\$51,244	\$645,222		\$656,336	\$19,092,772
Restricted cash and investments			\$3,426,707		6,230,527
Receivables:					
Accounts receivable			147,937		643,385
Federal, state and other governments					408,573
Interest receivable	171	\$2,475		2,037	107,852
Loans receivable	660,885		35,000		3,043,414
Due from other funds					2,509,542
Prepays					11,097
Advances to other funds					1,000,000
Land held for redevelopment					125,691
	<u>\$712,300</u>	<u>\$647,697</u>	<u>\$3,609,644</u>	<u>\$658,373</u>	<u>\$33,172,853</u>
LIABILITIES					
Accounts payable and accrued liabilities		\$399,604	\$19,566		\$1,498,311
Deposits payable			1,106		3,962,252
Due to other funds			2,509,542		2,535,517
Deferred revenue	\$660,885				3,179,322
Advances from other funds	1,000,000				1,768,149
	<u>1,660,885</u>	<u>399,604</u>	<u>2,530,214</u>		<u>12,943,551</u>
Fund balances (Deficit):					
Reserved for encumbrances			991,915	\$736,015	5,120,690
Reserved for debt service					2,351,610
Reserved for bond projects			52,515		482,950
Reserved for advances to other funds					1,000,000
Reserved for land held for redevelopment					125,691
Reserved for prepaid items					11,097
Reserved for loans receivable			35,000		35,000
Unreserved:					
Undesignated, reported in:					
Special Revenue Fund					9,455,345
Debt Service Fund					2,425,053
Capital Projects Fund	(948,585)	248,093		(77,642)	(778,134)
	<u>(948,585)</u>	<u>248,093</u>	<u>1,079,430</u>	<u>658,373</u>	<u>20,229,302</u>
Total Liabilities and Fund Balances	<u>\$712,300</u>	<u>\$647,697</u>	<u>\$3,609,644</u>	<u>\$658,373</u>	<u>\$33,172,853</u>

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CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	SPECIAL REVENUE FUNDS			
	Redevelopment Low-and-Mod			Community Development Block Grant
	Parkway Plaza	Soscol Gateway	Assessment Districts	
REVENUES				
Taxes			\$8,744	
Intergovernmental				\$954,937
Charges for services			1,466,426	27,565
Investment income	\$25,760	\$7,785	71,244	11,887
Miscellaneous revenues				
Total Revenues	25,760	7,785	1,546,414	994,389
EXPENDITURES				
Current:				
General government			103,071	496,757
Public works			1,884,225	
Public safety				
Parks and recreation			905,184	
Redevelopment				
County Fees and pass-through				
Capital outlay			5,698	136
Debt service:				
Principal repayment	245,000			
Interest and fiscal charges	177,428			
Total Expenditures	422,428		2,898,178	496,893
Excess (Deficiency) of Revenues over (under) Expenditures	(396,668)	7,785	(1,351,764)	497,496
OTHER FINANCING SOURCES (USES)				
Transfers in	1,074,157	215,718		
Transfers (out)	(677,489)		(279,157)	(333,189)
Total Other Financing Sources (Uses)	396,668	215,718	(279,157)	(333,189)
Net Change in Fund Balances		223,503	(1,630,921)	164,307
Beginning Fund Balances (Deficit), as restated	432,625	62,879	4,992,712	599,882
Ending Fund Balances (Deficit)	\$432,625	\$286,382	\$3,361,791	\$764,189

DEBT SERVICE FUNDS

Traffic	Parking	CAL Home Grant	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
		\$150,000			\$5,222,681	\$1,055,787
\$1,915,996						
371,899	\$374,853		\$161,771		31,250	
48,524	95,687	427	89,391		226,213	18,939
16,690						
<u>2,353,109</u>	<u>470,540</u>	<u>150,427</u>	<u>251,162</u>		<u>5,480,144</u>	<u>1,074,726</u>
		123,052	134,988		656,290	
253,065	341,789					
	151,946					
	24,482				57,089	13,383
						211,463
					1,290,000	
					804,541	43,149
<u>253,065</u>	<u>518,217</u>	<u>123,052</u>	<u>134,988</u>		<u>2,807,920</u>	<u>267,995</u>
2,100,044	(47,677)	27,375	116,174		2,672,224	806,731
(2,685,509)	533,618					
	(413,436)		(913)		(3,584,997)	(549,953)
<u>(2,685,509)</u>	<u>120,182</u>		<u>(913)</u>		<u>(3,584,997)</u>	<u>(549,953)</u>
(585,465)	72,505	27,375	115,261		(912,773)	256,778
<u>3,993,678</u>	<u>849,001</u>		<u>4,097,986</u>	<u>\$1,000,000</u>	<u>5,972,809</u>	<u>(540,151)</u>
<u>\$3,408,213</u>	<u>\$921,506</u>	<u>\$27,375</u>	<u>\$4,213,247</u>	<u>\$1,000,000</u>	<u>\$5,060,036</u>	<u>(\$283,373)</u>

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

	CAPITAL PROJECT FUNDS				Total Nonmajor Governmental
	State Help Program	Street Resurfacing	Redevelopment		
			Parkway Plaza	Soscol Gateway	
REVENUES					
Taxes					\$6,287,212
Intergovernmental					3,020,933
Charges for services	\$4,150		\$147,936		2,585,850
Investment income	1,192	\$16,979	(85,812)	\$14,291	542,507
Miscellaneous revenues					16,690
Total Revenues	5,342	16,979	62,124	14,291	12,453,192
EXPENDITURES					
Current:					
General government			1,369,653		2,883,811
Public works					1,884,225
Public safety					594,854
Parks and recreation					1,057,130
Redevelopment			699,342	165,449	935,263
County Fees and pass-through					211,463
Capital outlay		2,044,679	1,509,156	48,927	3,633,078
Debt service:					
Principal repayment					1,535,000
Interest and fiscal charges					1,025,118
Total Expenditures		2,044,679	3,578,151	214,376	13,759,942
Excess (Deficiency) of Revenues over (under) Expenditures	5,342	(2,027,700)	(3,516,027)	(200,085)	(1,306,750)
OTHER FINANCING SOURCES (USES)					
Transfers in		2,494,947	2,851,247	334,235	7,503,922
Transfers (out)	(388)	(219,154)	(979,537)	(186,472)	(9,910,194)
Total Other Financing Sources (Uses)	(388)	2,275,793	1,871,710	147,763	(2,406,272)
Net Change in Fund Balances	4,954	248,093	(1,644,317)	(52,322)	(3,713,022)
Beginning Fund Balances (Deficit)	(953,539)		2,723,747	710,695	23,942,324
Ending Fund Balances (Deficit)	(\$948,585)	\$248,093	\$1,079,430	\$658,373	\$20,229,302

INTERNAL SERVICE FUNDS

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

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

Risk Management Fund

To finance and account for the City's self-insurance programs.

Central Stores Fund

To account for the operations of the City's centralized supplies center.

Fleet Fund

To account for the operations, maintenance, and timely replacement of the City's fleet of vehicles which services the transportation needs of all city departments.

IT Replacement Fund

To finance and account for the City's Information Technology program.

Post Employment Benefit Fund

To account for other post employment benefits.

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010

	Risk Management	Central Stores	Fleet	IT Replacement	Post Employment Benefit	Total
ASSETS						
Current Assets:						
Cash and investments	\$5,393,024		\$3,646,552	\$53,730	\$1,026,730	\$10,120,036
Accounts receivable	5,044		995		21,732	27,771
Federal, state and other governments	403,717		134			403,851
Interest receivable	16,845		10,423	206	3,938	31,412
Prepaid items	155,269					155,269
Inventory		\$411,322				411,322
Total Current Assets	5,973,899	411,322	3,658,104	53,936	1,052,400	11,149,661
Capital Assets:						
Nondepreciable			112,694			112,694
Depreciable, net		60,589	5,646,905			5,707,494
Total Assets	5,973,899	471,911	9,417,703	53,936	1,052,400	16,969,849
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	306,914	1,003	81,226	52,111	47,922	489,176
Claims payable	1,362,900					1,362,900
Capital lease			87,696			87,696
Deferred revenue	3,299					3,299
Due to other funds		359,549				359,549
Total Current Liabilities	1,673,113	360,552	168,922	52,111	47,922	2,302,620
Long-Term Obligations:						
Net OPEB Obligation					1,237,066	1,237,066
Compensated absences		3,528	39,708			43,236
Capital lease			241,150			241,150
Claims payable	3,277,050					3,277,050
Total Liabilities	4,950,163	364,080	449,780	52,111	1,284,988	7,101,122
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt		60,589	5,430,753			5,491,342
Unrestricted	1,023,736	47,242	3,537,170	1,825	(232,588)	4,377,385
Total Net Assets	\$1,023,736	\$107,831	\$8,967,923	\$1,825	(\$232,588)	\$9,868,727

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Risk Management	Central Stores	Fleet	Information Technology	Post Employment Benefit	Total
OPERATING REVENUES						
Charges for services	\$3,208,151	\$525,572	\$2,819,264	\$132,400	\$1,660,381	\$8,345,768
Total Operating Revenues	<u>3,208,151</u>	<u>525,572</u>	<u>2,819,264</u>	<u>132,400</u>	<u>1,660,381</u>	<u>8,345,768</u>
OPERATING EXPENSES						
Cost of goods sold		437,977				437,977
Employee services and benefits	127,642	93,390	676,411		1,588,001	2,485,444
Materials and services	1,650,496	6,802	1,286,594	140,284		3,084,176
Insurance premiums and claims	975,991					975,991
Depreciation		4,487	760,671			765,158
Total Operating Expenses	<u>2,754,129</u>	<u>542,656</u>	<u>2,723,676</u>	<u>140,284</u>	<u>1,588,001</u>	<u>7,748,746</u>
Operating Income (Loss)	<u>454,022</u>	<u>(17,084)</u>	<u>95,588</u>	<u>(7,884)</u>	<u>72,380</u>	<u>597,022</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	118,136	(8,102)	73,560	1,414	27,019	212,027
Miscellaneous			(5,310)			(5,310)
Total Nonoperating Revenues (Expenses)	<u>118,136</u>	<u>(8,102)</u>	<u>68,250</u>	<u>1,414</u>	<u>27,019</u>	<u>206,717</u>
Income (loss) before transfers	<u>572,158</u>	<u>(25,186)</u>	<u>163,838</u>	<u>(6,470)</u>	<u>99,399</u>	<u>803,739</u>
TRANSFERS						
Transfers in			466,014			466,014
Transfers (out)	(302,261)	(30,000)	(182,821)			(515,082)
Change in Net Assets	269,897	(55,186)	447,031	(6,470)	99,399	754,671
Beginning Net Assets (Deficits)	<u>753,839</u>	<u>163,017</u>	<u>8,520,892</u>	<u>8,295</u>	<u>(331,987)</u>	<u>9,114,056</u>
Ending Net Assets (Deficits)	<u>\$1,023,736</u>	<u>\$107,831</u>	<u>\$8,967,923</u>	<u>\$1,825</u>	<u>(\$232,588)</u>	<u>\$9,868,727</u>

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Risk Management	Central Stores	Fleet	Information Technology	OPEB	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$3,228,128	\$525,572	\$3,051,040	\$132,400	\$1,638,649	\$8,575,789
Payments to suppliers	(1,234,873)	(420,678)	(1,405,253)	(88,173)	47,922	(3,101,055)
Payments to employees	(1,103,633)	(91,008)	(672,806)		(2,293,682)	(4,161,129)
Cash Flows from Operating Activities	889,622	13,886	972,981	44,227	(607,111)	1,313,605
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating grants received			42,866			42,866
Transfers in			466,014			466,014
Transfers out	(302,261)	(30,000)	(182,821)			(515,082)
Interfund receipts		24,216				24,216
Cash Flows from Noncapital Financing Activities	(302,261)	(5,784)	326,059			18,014
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets			(1,123,661)			(1,123,661)
Cash Flows from Capital and Related Financing Activities			(1,123,661)			(1,123,661)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	124,983	(8,102)	82,064	1,208	23,081	223,234
Cash Flows from Investing Activities	124,983	(8,102)	82,064	1,208	23,081	223,234
Net Cash Flows	712,344		257,443	45,435	(584,030)	431,192
Cash and cash equivalents at beginning of period	4,680,680		3,389,109	8,295	1,610,760	9,688,844
Cash and cash equivalents at end of period	<u>\$5,393,024</u>		<u>\$3,646,552</u>	<u>\$53,730</u>	<u>\$1,026,730</u>	<u>\$10,120,036</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:						
Operating income (loss)	\$454,022	(\$17,084)	\$95,588	(\$7,884)	\$72,380	\$597,022
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation		4,487	760,671			765,158
Change in assets and liabilities:						
Receivables, net	19,977		231,776		(21,732)	230,021
Other assets	5,424	32,150				37,574
Accounts payable and other accrued expenses	189,249	(8,049)	(118,659)	52,111	47,922	162,574
Net OPEB Obligation					(705,681)	(705,681)
Claims payable	220,950					220,950
Vacation and sick leave payable		2,382	3,605			5,987
Cash Flows from Operating Activities	<u>\$889,622</u>	<u>\$13,886</u>	<u>\$972,981</u>	<u>\$44,227</u>	<u>(\$607,111)</u>	<u>\$1,313,605</u>

FIDUCIARY FUNDS

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

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

Payroll Fund

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

Napa Valley Corporate Park Assessment District Fund

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

CITY OF NAPA
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>PAYROLL</u>				
Assets				
Cash and investments	\$1,604,789		(\$11,610)	\$1,593,179
Accounts receivable	425			425
Interest receivable		\$97,091		97,091
Total Assets	<u>\$1,605,214</u>	<u>\$97,091</u>	<u>(\$11,610)</u>	<u>\$1,690,695</u>
Liabilities				
Accounts payable	<u>\$1,605,214</u>	<u>\$97,091</u>	<u>(\$11,610)</u>	<u>\$1,690,695</u>
<u>NAPA VALLEY CORPORATE PARK ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$602,339	\$46,184		\$648,523
Restricted cash and investments	214,516		(\$10)	214,506
Interest receivable	2,147		(2,147)	
Total Assets	<u>\$819,002</u>	<u>\$46,184</u>	<u>(\$2,157)</u>	<u>\$863,029</u>
Liabilities				
Due to bondholders	<u>\$819,002</u>	<u>\$46,184</u>	<u>(\$2,157)</u>	<u>\$863,029</u>
<u>TOTAL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$2,207,128	\$46,184	(\$11,610)	\$2,241,702
Restricted cash and investments	214,516		(10)	214,506
Accounts receivable	425			425
Interest receivable	2,147	97,091	(2,147)	97,091
Total Assets	<u>\$2,424,216</u>	<u>\$143,275</u>	<u>(\$13,767)</u>	<u>\$2,553,724</u>
Liabilities				
Accounts payable	\$1,605,214	\$97,091	(\$11,610)	\$1,690,695
Due to bondholders	819,002	46,184	(2,157)	863,029
Total Liabilities	<u>\$2,424,216</u>	<u>\$143,275</u>	<u>(\$13,767)</u>	<u>\$2,553,724</u>