# NAPA COMMUNITY
# REDEVELOPMENT AGENCY
# COMPONENT UNIT FINANCIAL STATEMENTS
# FOR THE YEAR ENDED
# JUNE 30, 2010

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**NAPA COMMUNITY REDEVELOPMENT AGENCY**
**COMPONENT UNIT FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED**
**JUNE 30, 2010**

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

## INDEPENDENT AUDITORS' REPORT

To the Honorable Members of
The Board of Directors of the Napa
Community Redevelopment Agency

We have audited the financial statements of the governmental activities and each major fund of the Napa Community Redevelopment Agency, a component unit of the City of Napa, California, as of and for the year ended June 30, 2010, as listed in the table of contents. These basic component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic component unit financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic component unit financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities and each major fund of the Napa Community Redevelopment Agency as of June 30, 2010, and the respective changes in the financial position thereof and the respective budgetary comparisons listed as part of the basic component unit financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2010, on our consideration of the Authority'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 not a required part of the basic component unit financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maze & Associates

December 17, 2010

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## FINANCIAL HIGHLIGHTS

The Napa Community Redevelopment Agency (Agency) supports the City of Napa with development resources to enhance the economic prosperity of the downtown business district and Soscol Gateway area and improve the community's supply of affordable housing.

The Agency is financed with incremental property tax generated on appreciated property values within the Agency's two project areas; the 324-acre Parkway Plaza Project Area (Parkway Plaza) and the 376-acre Soscol Gateway Project Area (Soscol Gateway.) Property values in both project areas have continued growth for the recent year ended June 30, 2010. During this period, total tax revenues for the Agency as a whole grew by 26% over the prior year; for Parkway Plaza, the tax increment growth was 12%, and for Soscol Gateway, the tax increment growth was 236%. This was the second year that tax revenues were received for Soscol Gateway. The large increase in tax increment revenue for Soscol Gateway is an anomaly that was caused by a large exempt business filing bankruptcy, which resulted in it losing its tax exempt status and the property values being added back to the tax roll. We anticipate the value will be adjusted downward in FY 2010-11 to correct for any overstatement of value given current market conditions. The Agency remains in good financial condition and is on track with its project area Five-Year Implementation Plans, while continuing to monitor changes and projected changes in assessed valuations.

State code requires twenty percent of redevelopment tax revenues to be set-aside for low- & moderate-income housing programs. The Agency deposits the 20 percent set-aside in its Low-Moderate Income Housing Fund, utilizes a portion of the proceeds to make annual debt payments on tax-exempt bonds, and transfers the remainder to the City of Napa Housing Authority for expenditure on affordable housing projects and programs.

## OVERVIEW OF THE BASIC COMPONENT UNIT FINANCIAL REPORT

This Basic Component Unit Financial Report is presented in the following sections:

1) This introductory section, *Management's Discussion and Analysis*

2) *Basic Component Unit Financial Statements*, including:
    a. *Agency-wide financial statements*
    b. *Fund financial statements*
    c. *Notes to financial statements*

### The Basic Component Unit Financial Statements

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

The *Agency-wide Financial Statements* provide a longer-term view of the Agency's activities as a whole. *The Statement of Net Assets* provides information about the financial position of the Agency, including all of its capital assets and long-term liabilities on the accrual basis of accounting, similar to that used by commercial enterprises. The *Statement of Activities* provides information about the Agency's revenues and expenses, also on the accrual basis of accounting, with the emphasis on measuring net revenues or expenses of the Agency's programs.

The *Fund Financial Statements* report the Agency's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Agency's Funds. These statements measure only current revenues and expenditures and fund balances. They exclude capital assets, long-term debt and other long-term amounts.

## FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

### Governmental Net Assets

The following is a summary of the Agency's net assets, as measured on the accrual basis of accounting. All of the Agency's programs are governmental-type programs.

Table 1

| | June 30, 2009 | June 30, 2010 |
|---|---|---|
| Assets | | |
| Cash and investments | $ 9,141,567 | $ 8,412,644 |
| Other assets | 1,555,746 | 1,111,461 |
| Capital assets | 8,883,333 | 10,018,548 |
| Total assets | 19,580,646 | 19,542,653 |
| Liabilities | | |
| Long-term debt outstanding | 20,635,000 | 19,020,000 |
| Other liabilities | 2,672,997 | 3,741,597 |
| Total liabilities | 23,307,997 | 22,761,597 |
| Net assets: | | |
| Invested in capital assets, net of debt | 8,883,333 | 10,018,548 |
| Restricted | 2,785,387 | 2,782,045 |
| Unrestricted | (15,396,071) | (16,019,537) |
| Total net assets | $ (3,727,351) | $ (3,218,944) |

The Agency's $20 million of assets are primarily comprised of $8.4 million of cash and investments, of which $6.2 million is restricted debt reserves and bond proceeds pending bond project development. The Agency's $22.8 million of liabilities represent $19.0 million of long term debt.

Since $10.0 million of the Agency's assets are invested in parking garages and other capital assets, the Agency's unrestricted net assets are ($16.0 million). The Agency's financing structure is typical of most California redevelopment agencies in that long-term bonds have been sold to enhance current development in the project area, which will in turn generate incremental property tax revenues to retire bonds and restore the Agency's unrestricted net assets over the life of the Agency.

### Agency Activities

The Agency generated $6.5 million of property tax and investment income during the year. These resources were used to fund the Agency's debt service, project area development, and administrative costs. Twenty percent of tax revenues were set aside for affordable housing; the Agency contributes this set-aside to the Housing Authority of the City of Napa (Authority) for current affordable housing activities during the fiscal year. An additional five percent of the Parkway Plaza's 80 percent funds (non housing set-aside) are being held in an Agency "discretionary housing fund" to apply toward future affordable housing projects or activities.

The following is a summary of the program expenses, revenues, and changes in net assets for the year ended June 30, 2010. These balances are reported on the accrual basis of accounting.

Table 2

| | June 30, 2009 | June 30, 2010 |
|---|---|---|
| Program expenses: | | |
| General government | $ 1,331,093 | $ 3,062,038 |
| Redevelopment projects | 1,402,952 | 871,924 |
| Affordable housing | 543,561 | 627,082 |
| City of Napa Capital Projects | | 827,584 |
| Interest on long-term debt | 1,055,912 | 1,057,795 |
| Total program expenses | 4,333,518 | 6,446,423 |
| General revenues: | | |
| Property tax increment | 4,974,629 | 6,278,468 |
| Interest income | 240,653 | 207,176 |
| Other | 173,447 | 469,186 |
| Total general revenues | 5,388,729 | 6,954,830 |
| Change in net assets | $ 1,055,211 | $ 508,407 |

## FUND FINANCIAL STATEMENTS

The fund financial statements present the Agency's financial position and activities from an operational view, since these statements measure only the current revenues, expenditures and fund balances available to finance the Agency's current operations. These statements exclude capital assets, long-term debt and other long-term amounts.

### Debt Service Fund

The Agency's Debt Service Funds are the primary funds of the Agency. They are used to record tax increment revenues from the County, to transfer the statutory housing set-aside funds to the Agency's Low-Mod Special Revenue Funds, to fund debt service on the Agency's long-term bonds, and finally, to transfer administration and project appropriations to the Capital Projects Funds for implementation. Revenue increased from $5.1 million in 2009 to $6.5 million in 2010, with the majority of the increase attributable to increased property tax increment for both Parkway Plaza and Soscol Gateway project areas. Available fund balance of $4.8 million as of June 30, 2010 represents the balance of current revenues available for debt service and Implementation Plan projects still in the planning stages.

### Low-Mod Income Special Revenue Fund

These funds account for the portion of property tax increment required under California law to be set aside to fund low- and moderate-income housing expenditures. Twenty-one percent of current year tax increment revenues, in the amount of $1,289,875, were set-aside for this purpose. This is an increase from the prior year set-aside of $994,926.

The Parkway Plaza Low-Mod Special Revenue Fund also accounts for debt transactions and balances supporting the $4 million of bonds issued for affordable housing projects. These include debt proceeds, the debt service reserve, costs of issuance, and the annual debt service on the bonds. Residual revenues, after debt service of $422,428, have been contributed to the Housing Authority.

### Capital Projects Fund

The Agency's Capital Projects Funds are used to account for the Agency's Implementation Plans. Resources are transferred into each of the two project areas' funds from the associated Debt Service Fund as projects are appropriated. Many of the projects are multi-year in nature, given the long lead-time on development activities. Therefore, actual expenditures may follow the year of initial appropriation. During the year ended June 30, 2010, the Agency expended $5.0 million, $3.0 million more than the previous year. The fund balance of $1.7 million consists of cumulative appropriations for projects in progress at year-end.

## CAPITAL ASSETS

As of June 30, 2010, the Agency had $10.0 million invested in land and buildings within the project area, net of accumulated depreciation; an increase of $1.1 million from the previous year. This increase was due to capitalization of the land purchased in 2008 (Clay Street parking lot), that will continue to function as a parking lot until such time the Agency determines whether to redevelop it or possibly landbank it for future affordable housing. Major projects are outlined below.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

Assessed valuations in the Parkway Plaza project area continue to grow at a slow but steady pace, in large part due to the significant number of newly acquired properties and upgrading of existing buildings. In the 2009-10 fiscal year, net taxable value increased 6.9 percent over the previous fiscal year, representing a value increase of $31.7 million. With recent completion of several private development projects and changes in ownership, new values will continue to be added to the rolls in Parkway Plaza and assessed valuations are expected to continue to trend upward. Soscol Gateway experienced a 43.2 percent net increase, representing $68 million in new value. This spike was an anomaly that is largely attributable to the bankruptcy of Copia, a non-profit entity with large properties that lost their tax-exempt status during the fiscal year. It is anticipated the values will be adjusted downward by the County Assessor the following fiscal year and Soscol Gateway is likely to see a decrease in assessed valuations in FY 2010-11.

During fiscal year 2009-10, the Agency completed design and construction of several infrastructure projects in order to facilitate continued private investment in the downtown. They include:

- ***Opera House Plaza at Napa Creek:*** The Agency completed construction and dedicated this first of three riverfront parks/plazas being designed and built by the Agency. Construction drawings for the other two parks are in process.

- ***Hazardous Materials Investigation:*** Toxic substances were discovered on an Agency-owned parking garage property during construction of a new hotel. The Agency is working with the Regional Water Quality Control Board to define the extent of the problem and monitor the activity, and successfully pursued a settlement agreement with the polluters of the property.

- ***Fifth Street Plaza and Upper Promenade:*** Through a reimbursement agreement with a developer, the Agency designed and constructed a plaza at the terminus of Fifth Street and a proportional share of upper promenade improvements adjacent to a new residential/commercial mixed-use project.

- ***Fourth Street Boat Dock Design:*** The Agency funded the completion of design and began environmental review and permitting process on boat dock.

- ***Downtown Retail Strategy:*** To help fill empty storefronts downtown, the Agency developed data and marketing materials, conducted a space analysis and created a targeted retail attraction strategy to help fill empty storefronts. Implementation is ongoing.

- ***Napa Art Walk Program:*** In partnership with Arts Council Napa Valley, the Agency created a rotating sculpture walk program to help draw foot traffic on primary shopping streets and create more of an art destination downtown.

- ***Interior Drainage Preliminary Design:*** Working with a hydraulic engineering firm, the Agency developed three design alternatives for interior drainage to relieve the area from flooding. Staff held a community workshop and met with several property owners, and continues to obtain comments from public agencies before developing a final "preferred" alternative.

The Agency also continues to focus on preservation of historic buildings and working with property owners to enhance their properties. Activities in FY 2009-10 included:

- ***Seismic Retrofit Program:*** This program provides a loan to property owners for the design and implementation of seismic retrofit projects for unreinforced masonry buildings. The Agency completed a seismic retrofit loan for a historic building in downtown – the Oberon building.

- ***Soscol Gateway Historic Context Statement and Intensive Level Survey:*** The Agency developed a historic context statement and conducted an intensive-level historic survey of 75 structures in the Soscol Gateway project area. This included an extensive public outreach process. Qualifying structures will be added to the City's historic resources inventory, and others may qualify for national, state, and local landmark status.

The Agency continues to work closely with the Napa County Flood Control and Water Conservation District and the U. S. Army Corps of Engineers on a number of improvement projects, including final design and construction of the Agency/City-sponsored downtown boat dock; construction coordination for upcoming Flood Protection Project activities including Napa Creek improvements; and facilitation of City review of design and construction documents for the Oxbow Commons bypass channel to ensure they comply with the schematic plan and City requirements.

In 2007 the City Council adopted a new redevelopment project area in the Soscol Gateway. Staff is working on priority projects in this area including a preliminary design for an interior drainage project. This 376-acre project area will require the Agency's focus to facilitate private investment in the area to enable the Agency to obtain financing to start significant infrastructure improvements that are essential to the economic success of the area. Such improvements will include construction of the interior area drainage facility, street and circulation improvements, and a water distribution line.

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## CONTACTING THE AGENCY

These Component Unit Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Agency at 1600 Clay Street, Napa, California, (707) 257-9502. The mailing address is Post Office Box 660, Napa, California, 94559-0660.

## STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Agency funds have been eliminated.

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Component Unit Financial Statements.*

# NAPA COMMUNITY REDEVELOPMENT AGENCY
## STATEMENT OF NET ASSETS

JUNE 30, 2010

| | |
|---|---|
| ASSETS | |
| Cash and investments (Note 3) | $2,182,117 |
| Restricted cash and investments (Note 3) | 6,230,527 |
| Receivables: | |
| Accounts | 153,562 |
| Federal, State and other governments | 395,164 |
| Loans (Note 5) | 35,000 |
| Interest | 60,763 |
| Deferred charges | 466,972 |
| Capital assets (Note 7): | |
| Non-depreciable | 3,965,122 |
| Depreciable | 6,053,426 |
| Total Assets | 19,542,653 |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 857,522 |
| Interest payable | 302,937 |
| Deposits payable | 1,106 |
| Deferred revenue | 170,908 |
| Payable to Housing Authority | 25,975 |
| Payable to City (Note 4) | 768,149 |
| Long-term debt (Note 9): | |
| Due within one year | 1,615,000 |
| Due in more than one year | 19,020,000 |
| Total Liabilities | 22,761,597 |
| NET ASSETS (Note 10): | |
| Invested in capital assets, net of related debt | 10,018,548 |
| Restricted | |
| Debt service | 2,782,045 |
| Unrestricted | (16,019,537) |
| Total Net Assets (Deficit) | ($3,218,944) |

See accompanying notes to financial statements

NAPA COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

| | |
|---|---|
| Program expenses: | |
| Governmental Activities: | |
| General government | $3,062,038 |
| Redevelopment projects | 871,924 |
| Affordable housing | 627,082 |
| City of Napa Capital projects | 827,584 |
| Interest on long-term debt | 1,057,795 |
| Total program expenses | 6,446,423 |
| General revenues: | |
| Property tax increment | 6,278,468 |
| Interest income | 207,176 |
| Miscellaneous | 469,186 |
| Total general revenues | 6,954,830 |
| Change in Net Assets | 508,407 |
| Net Assets, (Deficit) beginning | (3,727,351) |
| Net Assets, (Deficit) ending | ($3,218,944) |

See accompanying notes to financial statements

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## FUND FINANCIAL STATEMENTS

Only individual major funds are presented in the Fund Financial Statements, 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 City of Napa Redevelopment Agency determined all its funds to be major funds in fiscal 2010. They are:

**Parkway Plaza and Soscol Gateway Special Revenue Funds** – Used to account for the proceeds of specific revenue services that are legally restricted to be expended for specific purposes, specifically for property tax increments set aside for low and moderate income housing projects.

**Parkway Plaza and Soscol Gateway Debt Service Funds** – Used to account for the accumulation of resources (primarily property tax increment revenues) to be used for the payment of debt.

**Parkway Plaza and Soscol Gateway Capital Projects Funds** – Used to account for financial resources to be used for the administration and implementation of the Project Area's redevelopment plan.

NAPA COMMUNITY REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2010

| | Parkway Plaza | | |
|---|---|---|---|
| | Special Revenue-Low-and-Mod Income Housing | Debt Service | Capital Projects |
| ASSETS | | | |
| Cash and investments (Note 3) | | $563,238 | |
| Restricted cash and investments (Note 3) | $452,210 | 2,351,610 | $3,426,707 |
| Receivables: | | | |
| Accounts | | 5,625 | 147,937 |
| Federal, state and other governments | | 356,201 | |
| Interest | 6,390 | 48,419 | |
| Loans (Note 5) | | | 35,000 |
| Due from other funds (Note 4) | | 2,509,542 | |
| Total Assets | $458,600 | $5,834,635 | $3,609,644 |
| LIABILITIES | | | |
| Accounts payable | | $626,493 | $19,566 |
| Payable to Housing Authority | $25,975 | | |
| Advances from the City (Note 4) | | | |
| Due to other funds (Note 4) | | | 2,509,542 |
| Deferred Revenue | | 148,106 | |
| Deposits payable | | | 1,106 |
| Total Liabilities | 25,975 | 774,599 | 2,530,214 |
| FUND BALANCES (DEFICIT) (Note 10): | | | |
| Reserved for: | | | |
| Encumbrances | 2,190 | | 991,915 |
| Debt service | 430,435 | 2,351,610 | |
| Bond projects | | | 52,515 |
| Low-Mod income | | | |
| Loans receivable | | | 35,000 |
| Designated for: | | | |
| Project area | | 2,708,426 | |
| Undesignated, reported in: | | | |
| Debt Service Funds | | | |
| Total Fund Balance (Deficit) | 432,625 | 5,060,036 | 1,079,430 |
| Total Liabilities and Fund Balance (Deficit) | $458,600 | $5,834,635 | $3,609,644 |

See accompanying notes to financial statements

| Soscol Gateway Special Revenue-Low-and-Mod Income Housing | Debt Service | Capital Projects | Total Governmental Funds |
|---|---|---|---|
| $285,243 | $677,300 | $656,336 | $2,182,117 |
| | | | 6,230,527 |
| | | | 153,562 |
| | 38,963 | | 395,164 |
| 1,139 | 2,778 | 2,037 | 60,763 |
| | | | 35,000 |
| | | | 2,509,542 |
| $286,382 | $719,041 | $658,373 | $11,566,675 |
| | $211,463 | | $857,522 |
| | | | 25,975 |
| | 768,149 | | 768,149 |
| | | | 2,509,542 |
| | 22,802 | | 170,908 |
| | | | 1,106 |
| | 1,002,414 | | 4,333,202 |
| | | $736,015 | 1,730,120 |
| | | | 2,782,045 |
| | | | 52,515 |
| $286,382 | | | 286,382 |
| | | | 35,000 |
| | | | 2,708,426 |
| | (283,373) | (77,642) | (361,015) |
| 286,382 | (283,373) | 658,373 | 7,233,473 |
| $286,382 | $719,041 | $658,373 | $11,566,675 |

# NAPA COMMUNITY REDEVELOPMENT AGENCY
## Reconciliation of the
## GOVERNMENTAL FUNDS COMBINING BALANCE SHEET
## with the
## GOVERNMENTAL ACTIVITIES NET ASSETS
## JUNE 30, 2010

| | | |
|---|---|---|
| TOTAL FUND BALANCES, as reported on the Governmental Funds Balance Sheet | | $7,233,473 |
| Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following: | | |
| CAPITAL ASSETS | | |
| Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported on the Fund Balance Sheets | | 10,018,548 |
| ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES | | |
| Unamortized bond issuance costs, which were reported as expenditures when paid in the fund statement, have been capitalized as deferred charges on the Statement of Net Assets | | 466,972 |
| LONG-TERM LIABILITIES | | |
| The liabilities below are not due and payable in the current period and therefore are not reported on the Fund Balance Sheet | | |
| Long-term debt: | | |
| Due in less than one year | (1,615,000) | |
| Due in more than one year | (19,020,000) | (20,635,000) |
| Interest payable | | (302,937) |
| NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES, as reported on the Statement of Net Assets | | ($3,218,944) |

See accompanying notes to financial statements

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# NAPA COMMUNITY REDEVELOPMENT AGENCY
## GOVERNMENTAL FUNDS
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED JUNE 30, 2010

| | Parkway Plaza | | |
|---|---|---|---|
| | Special Revenue-Low-and-Mod Income Housing | Debt Service | Capital Projects |
| REVENUES | | | |
| Property tax increment | | $5,222,681 | |
| Interest income | $25,760 | 226,213 | ($85,812) |
| Charges for services | | 31,250 | 147,936 |
| Total Revenues | 25,760 | 5,480,144 | 62,124 |
| EXPENDITURES | | | |
| Redevelopment: | | | |
| Salaries | | | 325,732 |
| Redevelopment Projects | | | 88,214 |
| County fees and passthroughs | | 656,290 | 1,369,653 |
| Services | | 57,089 | 285,396 |
| Capital outlay | | | 1,509,156 |
| Transfers to City (Note 4) | | | 979,537 |
| Housing (Note 6) | 627,082 | | |
| Debt service: | | | |
| Principal | 245,000 | 1,290,000 | |
| Interest and fiscal charges | 177,428 | 804,541 | |
| Total Expenditures | 1,049,510 | 2,807,920 | 4,557,688 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,023,750) | 2,672,224 | (4,495,564) |
| OTHER FINANCING SOURCES (USES) | | | |
| Contributions from City of Napa (Note 4) | | | 290,000 |
| Transfers in (Note 4) | 1,074,157 | | 2,561,247 |
| Transfers (out) (Note 4) | (50,407) | (3,584,997) | |
| Total Other Financing Sources (Uses) | 1,023,750 | (3,584,997) | 2,851,247 |
| NET CHANGE IN FUND BALANCES | | (912,773) | (1,644,317) |
| FUND BALANCES (DEFICIT), BEGINNING | 432,625 | 5,972,809 | 2,723,747 |
| FUND BALANCES (DEFICIT), ENDING | $432,625 | $5,060,036 | $1,079,430 |

See accompanying notes to financial statements

| Soscol Gateway | | | |
|---|---|---|---|
| Special Revenue-Low-and-Mod Income Housing | Debt Service | Capital Projects | Total Governmental Funds |
| | $1,055,787 | | $6,278,468 |
| $7,785 | 18,939 | $14,291 | $207,176 |
| | | | $179,186 |
| 7,785 | 1,074,726 | 14,291 | 6,664,830 |
| | | 160,475 | 486,207 |
| | 1,442 | | 89,656 |
| | 211,463 | | 2,237,406 |
| | 11,941 | 4,974 | 359,400 |
| | | 48,927 | 1,558,083 |
| | | 186,472 | 1,166,009 |
| | | | 627,082 |
| | | | 1,535,000 |
| | 43,149 | | 1,025,118 |
| | 267,995 | 400,848 | 9,083,961 |
| 7,785 | 806,731 | (386,557) | (2,419,131) |
| | | | 290,000 |
| 215,718 | | 334,235 | 4,185,357 |
| | (549,953) | | (4,185,357) |
| 215,718 | (549,953) | 334,235 | 290,000 |
| 223,503 | 256,778 | (52,322) | (2,129,131) |
| 62,879 | (540,151) | 710,695 | 9,362,604 |
| $286,382 | ($283,373) | $658,373 | $7,233,473 |

# NAPA COMMUNITY REDEVELOPMENT AGENCY
Reconciliation of the
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
with the
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance | ($2,129,131) |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | |
| CAPITAL ASSETS TRANSACTIONS | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation expense is deducted from fund balance | (270,950) |
| Capital asset additions is added to fund balance | 1,406,165 |
| OTHER NON-CURRENT ITEMS | |
| 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): | |
| Amortize bond costs of issuance | (51,886) |
| 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 |
| Decrease in interest payable is added back to fund balance | 19,209 |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, as reported on the Statement of Activities | $508,407 |

See accompanying notes to financial statements

# NAPA COMMUNITY REDEVELOPMENT AGENCY
## PARKWAY PLAZA
## LOW AND MODERATE INCOME HOUSING
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
## BUDGET AND ACTUAL
## FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Positive (Negative) |
| BUDGETARY FUND BALANCE, BEGINNING | | | $432,625 | |
| REVENUES | | | | |
| Interest income | $20,000 | $20,000 | 25,760 | $5,760 |
| Total Revenues | 20,000 | 20,000 | 25,760 | 5,760 |
| EXPENDITURES | | | | |
| Housing (Note 6) | (608,685) | (608,685) | (627,082) | (18,397) |
| Debt service: | | | | |
| Principal | 245,000 | 245,000 | 245,000 | |
| Interest and fiscal charges | 178,315 | 178,315 | 177,428 | (887) |
| Total Expenditures | (185,370) | (185,370) | (204,654) | (19,284) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (Note 4) | 1,012,000 | 1,012,000 | 1,074,157 | 62,157 |
| Transfer (out) (Note 4) | | | (50,407) | (50,407) |
| Total other financing sources (uses) | 1,012,000 | 1,012,000 | 1,023,750 | 11,750 |
| NET CHANGE IN FUND BALANCE | $1,217,370 | $1,217,370 | 1,254,164 | $36,794 |
| BUDGETARY FUND BALANCE, ENDING | | | $1,686,789 | |

See accompanying notes to financial statements

NAPA COMMUNITY REDEVELOPMENT AGENCY
SOSCOL GATEWAY
LOW AND MODERATE INCOME HOUSING
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Positive (Negative) |
| BUDGETARY FUND BALANCE, BEGINNING | | | $62,879 | |
| REVENUES | | | | |
| Interest income | $900 | $900 | 7,785 | $6,885 |
| Total Revenues | 900 | 900 | 7,785 | 6,885 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (Note 4) | 94,000 | 94,000 | 215,718 | 121,718 |
| Total other financing sources (uses) | 94,000 | 94,000 | 215,718 | 121,718 |
| NET CHANGE IN FUND BALANCE | $94,900 | $94,900 | 223,503 | $128,603 |
| BUDGETARY FUND BALANCE, ENDING | | | $286,382 | |

See accompanying notes to financial statements

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *A. Organization*

The Napa Community Redevelopment Agency (the Agency) was established pursuant to the Community Redevelopment Law as codified in the Health and Safety Code of the State of California (the State). The City Council of the City of Napa (the City) adopted Ordinance No. 1557 on November 19, 1962, activating the Agency and designating itself as the governing body. Officials and staff of the City perform all staff work of the Agency.

The Agency is an integral part of the City. As such, the accompanying financial statements are also included as a blended component unit within the City's financial statements.

### *B. Project Area*

On December 15, 1969, the Agency adopted its first project area, the Parkway Plaza Redevelopment Project (Parkway Plaza) which consists of 324 acres (34 square blocks in downtown Napa). The primary objective of this project is to maintain downtown business and convert the area into a competitive, modern and attractive downtown area.

On November 6, 2007 City Council approved the formation of a second project area called Soscol Gateway Project Area (Soscol Gateway) which consists of 376 acres. The primary objective of this project is to finance infrastructure improvements that will enable and encourage new private investment in the area and to expand the supply of affordable housing.

### *C. Description of Financial Statements and Basis of Accounting*

These Component Unit Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. 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 Agency's financial position and results of operations are presented from two perspectives in the following two sets of statements:

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency 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. Revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Eliminations have been made to minimize the double counting of internal activities.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. For the year ended June 30, 2010, the Agency reports only general revenues.

**Fund Financial Statements:** All of the Agency's activities are reported in governmental funds. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, 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.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, charges for services and interest revenue. Non-exchange transactions, in which the Agency 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Agency may fund 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 Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

### *D. Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total, or other funds selected for presentation by the Agency. The Agency considers all its funds to be major funds.

The Agency reported the following major funds in the accompanying financial statements for both the Parkway Plaza and Soscol Gateway Projects:

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

**Special Revenue Funds** – Used to account for the proceeds of specific revenue services that are legally restricted to be expended for specific purposes, specifically for property tax increments set aside for low and moderate income housing projects.

**Debt Service Funds** – Used to account for the accumulation of resources (primarily property tax increment revenues) to be used for the payment of debt.

**Capital Projects Funds** – Used to account for financial resources to be used for the administration and implementation of the Project Area's redevelopment plan.

### *E. Property Tax Increment*

All property taxes are levied and collected by the County Auditor of the County of Napa and paid to the various taxing entities including the Agency. Secured taxes are due on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured taxes are due on July 1 and become delinquent on August 31. The lien date for secured and unsecured property taxes is January 1 of the preceding fiscal year. Property tax increment revenues include only property taxes resulting from increased assessed values and are recognized in the fiscal year for which the taxes have been levied, provided they become available and measurable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

## NOTE 2 –BUDGETING

The Agency adopts a biennial operating budget on or before June 30 for each of the ensuing two fiscal years for Special Revenue funds. The operating budget takes the form of a two-year financial plan which is adopted in its entirety by the Board. A mid-period review is conducted in the off-year and appropriations are adjusted accordingly. The fiscal year begins on July 1 and ends on June 30 of the following year.

Project-length budgets (which can span a number of years) are adopted for most other governmental funds. Debt service fund budgets are revised when debt issuances are authorized.

The budget is prepared at the fund, function and department levels. The Executive Director is authorized to make transfers between the departments. All other adjustments or changes require Board 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.

## NOTE 3 - CASH AND INVESTMENTS

The Agency's dependence on incremental property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Agency pools cash from all sources and all funds with the City of Napa, except Cash with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investments are carried at fair value.

## NOTE 3 - CASH AND INVESTMENTS (Continued)

### *A. Policies*

The City and Agency invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the City and Agency employ the Trust Department of a bank as the custodian of all City and Agency managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City and Agency cash on deposit or first trust deed mortgage notes with a value of 150% of the Agency's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the City or Agency's name and places the City and Agency ahead of general creditors of the institution pledging the collateral.

The Agency's investments are carried at fair value, as required by generally accepted accounting principles (material only). The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

### *B. Classification*

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or Agency agreements. Cash and investments as of June 30, 2010, are as follows:

| | |
|---|---|
| Cash and investments available for operations | $2,182,117 |
| Restricted cash and investments | 6,230,527 |
| Total cash and investments | $8,412,644 |

### *C. Cash and Investments and Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

## NOTE 3 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's cash and investments by maturity:

| Type of Investments | Less Than One Year | One to Three Years | Three to Five Years | Total |
|---|---|---|---|---|
| Local Agency Investment Fund | $12,534 | | | $12,534 |
| Money Market Funds (U.S. Securities) | 3,467,617 | | | 3,467,617 |
| Federal Agency Securities | 46,083 | $713,973 | $2,002,854 | 2,762,910 |
| Total Investments | $3,526,234 | $713,973 | $2,002,854 | 6,243,061 |
| *Cash on hand* | | | | 2,169,583 |
| Total Cash and Investments | | | | $8,412,644 |

The Agency is a 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 Agency reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

### *D. Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2010, the Agency's investments in Government Agency Securities and Money Market Funds were rated AAA as provided by Standard and Poor's investment rating system. The Local Agency Investment Fund is not rated.

## NOTE 3 - CASH AND INVESTMENTS (Continued)

### *E. Investments Authorized by the California Government Code and the Agency's Investment Policy*

The Investment Policy of the City and Agency, and the California Government Code, allow the Agency to invest in the following, provided the credit ratings of the issuers are acceptable to the Agency; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the Agency's Investment Policy where it is more restrictive:

| 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% |

## NOTE 3 - CASH AND INVESTMENTS (Continued)

### *F. Investments Authorized by Debt Agreements*

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality |
|---|---|---|
| United States Treasury Bill, Bond, Notes | 5 years | |
| United States Government Agency Obligations | 5 years | |
| Federal Securities | 5 years | |
| Bankers' Acceptance | 30 days | A-1 |
| Commercial Paper | 270 days | A-1+ |
| Certificates Deposit | 30 days | A-1 |
| Repurchase Agreement | None | A |
| Local Agency Investment Fund | N/A | |
| Money Market Funds | N/A | AAm |
| Investment Agreement | None | AA |
| Prefunded Municipal Obligations | None | AAA |
| State Obligations | None | A |
| State Obligations - Direct Short-Term | None | A-1+ |
| State Obligations - Special Revenue Bonds | None | AA |

## NOTE 3 - CASH AND INVESTMENTS (Continued)

### *G. Concentration Risk*

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities, or mutual funds are required to be disclosed when they exceeds five percent of the total portfolio. The Agency has a significant portion of its portfolio invested in Federal Agency Securities, as set forth below:

| Reporting Unit | Issuer | Investment Type | Reported Amount |
|---|---|---|---|
| **Entity- Wide:** | | | |
| | Federal National Mortgage Association | Federal Agency Securities | $653,463 |
| | Federal Home Loan Mortgage Corporation | Federal Agency Securities | 713,973 |
| | Federal Farm Credit Bank | Federal Agency Securities | 675,597 |
| | Federal Home Loan Bank | Federal Agency Securities | 653,463 |
| **Major- Funds:** | | | |
| Parkway Plaza - Low & Moderate Income Housing Special Revenue Fund | Federal National Mortgage Association | Federal Agency Securities | 25,575 |
| Debt Service Fund | Federal National Mortgage Association | Federal Agency Securities | 632,180 |
| | Federal Home Loan Mortgage Corporation | Federal Agency Securities | 568,517 |
| | Federal Farm Credit Bank | Federal Agency Securities | 566,462 |
| | Federal Home Loan Bank | Federal Agency Securities | 551,694 |

## NOTE 4 – INTERFUND TRANSACTIONS

During fiscal year 2009-2010, Redevelopment Agency interfund transfers were as follows:

| Fund Receiving Transfer | Fund Making Transfer | Amount Transferred | |
|---|---|---|---|
| **Parkway Plaza** | **Parkway Plaza** | | |
| Low and Moderate Income Housing | Debt Service Fund | $1,074,157 | **(A)** |
| Capital Projects | Debt Service Fund | 2,510,840 | **(B)** |
| Capital Projects | Low and Moderate Income Housing | 50,407 | **(F)** |
| **Soscol Gateway** | **Soscol Gateway** | | |
| Low and Moderate Income Housing | Debt Service Fund | 215,718 | **(A)** |
| Capital Projects | Debt Service Fund | 334,235 | **(C)** |
| | Total | $4,185,357 | |

Transfers between Napa Community Redevelopment Agency and the City

| | | | |
|---|---|---|---|
| **Parkway Plaza** | | | |
| Capital Projects | Non-Major Governmental Funds | $290,000 | **(D)** |
| | Total Transfer from the City | $290,000 | |
| | **Parkway Plaza** | | |
| General Fund | Capital Projects | $327,161 | **(E)** |
| City Capital Projects Fund | Capital Projects | 652,376 | **(B)** |
| | **Soscol Gateway** | | |
| General Fund | Capital Projects | 11,265 | **(E)** |
| City Capital Projects Fund | Capital Projects | 175,207 | **(B)** |
| | Total Transfer to the City | $1,166,009 | |

**(A)** To fund the 20% set aside pursuant to Health & Safety Code requirements
**(B)** To fund continued construction operations
**(C)** Transfer of advance for continued operations
**(D)** Contribution for the Downtown Specific Plan
**(E)** To fund City's overhead cost based on the City's cost allocation plan
**(F)** Interest expense reclassification

Interfund balances are loans between funds to provide either short-term cash flow or funding for longer-term projects. As of June 30, 2010, the Parkway Plaza Debt Service Fund is owed $2,509,542 by the Parkway Plaza Capital Projects Fund.

In fiscal year 2008 - 2009 the City's Water Fund advanced the Soscol Gateway Debt Service Fund $725,000 to begin carrying out the five year implementation plan on the Soscol Gateway project. The advance bears 4% simple interest due annually, with the first payment due March 1, 2012 and the last payment due March 1, 2021. The Soscol Gateway Debt Service Fund then transferred the same amount to the Soscol Gateway Capital Projects Fund. Balance of this advance, including accrued interest, was $768,149 at June 30, 2010.

## NOTE 5 – LOANS RECEIVABLE

The Agency has extended a short term loan in support of the Napa Valley Tourism Business Improvement District (NVTBID) in order to establish a stable funding source for local and valley-wide tourism marketing and improvements. The NVTBID is currently being overseen by the Napa Valley Destination Council whom was contracted by the City of Napa, in order to enhance existing marketing programs and activities funded during the NVTBID formation process. The Napa Valley Destination Council has been granted a $35,000 loan by the Agency in order to cover the costs associated with the NVTBID formation. The loan is expected to be repaid on or before March 31, 2011.

## NOTE 6 – RELATED PARTY TRANSACTIONS

Below is a summary of the major financial transactions between the Agency, the City, and the City of Napa Housing Authority (Authority) during fiscal 2009-2010. The Agency and Authority are component units of the City and City Council is accountable for their operations.

*Reimbursement of Costs* – The Agency reimburses the City for various costs incurred by the City in its capacity of administering the Agency. During fiscal 2009-2010, the Agency remitted $823,823 to the City as reimbursement for payroll, management and other administrative expenditures which are included as general governmental expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance.

*Transfer to the Authority's Low and Moderate Income Housing Fund* – According to the provisions of Section 33334.6 of the State's Health and Safety Code, the Agency is required to set aside a minimum of 20% of its property tax increment revenues for low income housing. In fiscal year 2010, the total set aside amount approximated 20.5% of the Agency's property for incremental revenues. The 20% set-aside for Parkway Plaza Project Area is used to pay debt service on 2003 Series B and C bonds and the net proceeds are then transferred to the Authority. Beginning in fiscal year 2009-10, the 20% set-aside from Soscol Gateway Project Area and any fund balance from fiscal year 2008-09 is to be transferred to the Authority on an annual basis. During the year ended June 30, 2010, the Agency expended $627,082 representing contributions to the Authority from such set aside revenues.

## NOTE 7 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency has assigned a useful life of 35 and 40 years for its buildings & improvements and infrastructures, respectively.

## NOTE 7 – CAPITAL ASSETS (Continued)

Major outlays for capital assets and improvements 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 proceeds over the same period.

The following is a summary of capital asset activity during the year ended June 30, 2010:

| | Balance at June 30, 2009 | Additions | Transfers | Balance at June 30, 2010 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $2,651,721 | $1,023,133 | | $3,674,854 |
| Construction in progress | 241,341 | 338,927 | ($290,000) | 290,268 |
| Total capital assets not being depreciated | 2,893,062 | 1,362,060 | (290,000) | 3,965,122 |
| Capital assets being depreciated: | | | | |
| Building and improvements | 8,856,663 | | 290,000 | 9,146,663 |
| Equipment | | 7,238 | | 7,238 |
| Infrastructure: | | | | |
| Curb/gutter/sidewalks | 1,647,646 | | | 1,647,646 |
| Street lights | 1,370,804 | 36,867 | | 1,407,671 |
| Total capital assets being depreciated | 11,875,113 | 44,105 | 290,000 | 12,209,218 |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (5,760,280) | (195,489) | | (5,955,769) |
| Infrastructure: | | | | |
| Curb/gutter/sidewalks | (57,120) | (41,191) | | (98,311) |
| Street lights | (67,442) | (34,270) | | (101,712) |
| Total accumulated depreciation | (5,884,842) | (270,950) | | (6,155,792) |
| Net capital assets being depreciated | 5,990,271 | (226,845) | 290,000 | 6,053,426 |
| Governmental-type activities capital assets, net | $8,883,333 | $1,135,215 | | $10,018,548 |

Depreciation expense is charged to functions and programs based on their usage of the related assets. In fiscal year 2010, depreciation expense, shown above as additions to accumulated depreciation, was charged to the Redevelopment Projects Program.

**Commitment**: A portion of the Agency's land was purchased with Neighborhood Development Program (NDP) and Community Development Block Grant (CDBG) funds. The properties have been developed as the Second Street garage and two surface parking lots, one on Pearl Street, the other on Main Street. An NDP Close out Agreement dated April 4, 1978, between the City and the Agency requires that any proceeds from the disposition of the land acquired with NDP or CDBG funds are to be remitted to the CDBG Program of the City for reprogramming for redevelopment purposes. The Agency does not anticipate the disposition of this property currently being utilized for public parking purposes.

## NOTE 8 – LAND HELD FOR REDEVELOPMENT

The 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.

## NOTE 9 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2010, was as follows:

| | Original Issue Amount | Balance June 30, 2009 | Retirements | Balance June 30, 2010 | Current Portion |
|---|---|---|---|---|---|
| **Governmental Activity Debt:** | | | | | |
| **Redevelopment Tax Allocation Bonds** | | | | | |
| 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 |
| 2003C Refunding Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019 | 2,050,000 | 1,565,000 | 105,000 | 1,460,000 | 120,000 |
| Total Redevelopment Tax Allocation Bonds | | $22,170,000 | $1,535,000 | $20,635,000 | $1,615,000 |

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 $21.8 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 $5,222,681 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 (See Note 5). These bonds are secured by the Agency's 20% low & moderate housing set-aside of tax increment revenues.

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

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 1.7 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 2.5 times over the $415,815 in debt service.

The annual debt service requirements for the Agency's Tax Allocation Bonds are shown below:

| | Governmental Activities | |
|---|---|---|
| Fiscal year ending June 30 | Principal | Interest |
| 2011 | $1,615,000 | $908,808 |
| 2012 | 1,730,000 | 844,536 |
| 2013 | 1,800,000 | 774,034 |
| 2014 | 1,915,000 | 696,518 |
| 2015 | 2,010,000 | 606,933 |
| 2016-2020 | 11,565,000 | 1,451,033 |
| Total | $20,635,000 | $5,281,861 |

## NOTE 10 – NET ASSETS AND FUND BALANCES

### A. *Net Assets*

Net Assets, measured on the full accrual basis of accounting, is the excess of all the Agency's assets over all its liabilities. Net Assets are divided into the following categories:

*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 Agency's capital assets, less the outstanding balance of any debt issued to finance these assets. None of the Agency's capital assets have been acquired with outstanding debt.

*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 remaining balance of Net Assets. The Agency reports deficit unrestricted net assets since its business purpose has to debt-finance infrastructure, community improvements owned by the organization, and affordable housing projects. Over time, the Agency's debt will be retired with the incremental property tax revenues generated form these improvements

## NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

### B. *Fund Balances, Reserves and Designations*

In the Fund financial statements, fund balances represent the net current assets of each fund available for current programs less it liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

*Reserved for Encumbrances* - This balance is committed to contracts that were in progress at June 30, 2010.

*Reserved for Debt Service* - This reserve was established in connection with the issuance of the 2003 Tax Allocation Bonds. The Agency is required to fund a reserve at the maximum annual debt service on the bonds. The debt reserve for bond Series A is reported in the Debt Service Fund. The debt reserves for Series B and C are reported in the Low & Moderate Income Housing Special Revenue Fund.

*Reserved for Bond Projects* - $3.4 million in net proceeds of the Agency's 2003 Tax Allocation Bonds, Series A, are restricted for redevelopment projects subject to bond covenants.

*Reserved for Low-Mod Income* - This reserve represents funds set aside for low and moderate income programs.

*Reserve for Loan Receivable* – This reserve represents funds that are not available for appropriation even though they are a component of assets.

*Designated for Project Area* - This balance is available for future redevelopment projects.

## NOTE 11 – RISK MANAGEMENT FUND

The City has established its Risk Management Fund (an Internal Service Fund) to account for its self-insurance program. Under this program the City is self-insured for general liability insurance claims up to $150 thousand per occurrence. Claims in excess of these amounts up to $15 million are insured. The Agency is covered under the City's Risk Management Program.

## NOTE 12 – PASS-THROUGHS

In order to mitigate financial impacts on other property tax supported entities caused by the Agency's adoption of the Redevelopment Projects, the Agency must pass-through a portion of property tax increments to them. During fiscal 2009-2010, the Agency paid $867,753 to these agencies.

In addition to the above amounts, the County has calculated and assessed an additional $152,168 in pass-throughs attributable to years prior to fiscal 2008-09 that it claims are due. The Agency has not recorded these additional pass-throughs as it is disputing the propriety of their assessment. The Agency referred the matter to the Attorney General for a decision on the matter and has received AG opinion No.10-101 on September 16, 2010. The opinion supports the Agency's approach on calculating the AB1290 pass-throughs. The Agency is currently waiting for a response from the County Auditor-Controller on the additional assessment.

## NOTE 13 – COMMITMENT AND CONTINGENCIES

*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 14 – 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.

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MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Members of
The Board of Directors of the Napa
Community Redevelopment Agency

We have audited the financial statements of the Redevelopment Agency of the City of Napa (Agency) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. We have conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## *Internal Control over Financial Reporting*

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the *Guidelines for Compliance Audits of California Redevelopment Agencies*. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under Government Auditing Standards.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control which is an integral part of our audits and should be read in conjunction with their report.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 17, 2010