

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

Prepared by:

Finance Department, City of Napa

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

Table of Contents

Page

FINANCIAL SECTION

<i>Independent Auditors' Report</i>	1
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<i>Management's Discussion and Analysis</i>	3
--	----------

Basic Financial Statements:

Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11

Fund Financial Statements:

Governmental Funds Financial Statements:

Balance Sheet – Governmental Funds.....	14
Reconciliation of the Governmental Funds – Balance Sheet with the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	16
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – Development Fees Special Revenue Fund	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – Home Program Special Revenue Fund	20

Proprietary Funds Financial Statements:

Statement of Net Assets	22
Statement of Revenues, Expenses and Changes in Fund Net Assets	23
Statement of Cash Flows.....	24

Fiduciary Funds Financial Statements

Statement of Fiduciary Net Assets.....	26
Statement of Changes in Fiduciary Net Assets	27

Notes to the Financial Statements.....	29
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Supplemental Information:

Non-major governmental funds:

Combining Balance Sheets.....	68
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	72

Internal Service Funds:

Combining Statement of Net Assets	76
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets.....	77
Combining Statements of Cash Flows.....	78

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

Table of Contents

Page

Supplemental Information (Continued):

Private Purpose Trust Fund:	
Statement of Net Assets	80
Statement of Changes in Net Assets	81
Agency Funds:	
Combining Statement of Changes in Assets and Liabilities	82

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of Napa, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the following fund financial statements. These fund financial statements were audited by other auditors, whose reports thereon have been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

	Represent Percentage of Total Amounts			
	Assets	Capital Assets	Long-Term Obligations	Revenue
Business Type Activities - Enterprise Fund				
Golf Course	0.09%	0.22%	0.06%	0.28%

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa at June 30, 2012, and the results of its operations and the cash flows of its proprietary fund types thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report April 24, 2013, dated on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Maze & Associates

April 24, 2013

<p style="text-align: center;">CITY OF NAPA MANAGEMENT'S DISCUSSION AND ANALYSIS</p>
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INTRODUCTION

This narrative is presented to provide readers of these *Basic Financial Statements* with an overview and analysis of the financial activities of the City of Napa for the year ended June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report is presented in the following sections:

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

The Basic Financial Statements

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

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

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

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

FINANCIAL HIGHLIGHTS

The City provides services to the citizens of Napa by leveraging property, sales, and other taxes with user fees and federal, state, and local grants to finance its operations. The City's sales and transient occupancy tax revenues increased in fiscal 2012 as tourism activity continued to rebound.

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

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The total net assets of the City as of June 30, 2011 and 2012 are summarized in Table 1 below and are followed by a discussion of the balances by category.

Government-wide Net Assets

Table 1
Summary of Net Position

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

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

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

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

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

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets - The City's total net assets increased by \$14.5 million during the fiscal year, to \$543.1 million. The governmental net asset balance of \$436.6 million includes \$356.3 million invested in capital assets net of related debt, \$34.4 million restricted funds available for capital projects and housing programs, and a remaining balance of \$45.9 million available for future needs. The change in balances is due primarily to a combination of increased revenues as the recovery from the recession continues and decreased liabilities from the dissolution of the Redevelopment Agency.

Government-wide Activities

The changes in the City's government-wide net assets as of June 30, 2012 result from its activities during the fiscal year. The City's government-wide activities for the current and prior fiscal years are summarized in Table 2 below.

Table 2
Changes in Net Assets

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

The City's net assets decreased by \$4.7 million during the year, as measured on the accrual basis of accounting. Governmental revenues decreased 14.1% (\$12.1 million) primarily due to the state ordered dissolution of the Redevelopment Agency, effective February 1, 2012. Governmental expenses increased from the prior fiscal year by \$2.0 million to \$78.9 million due to increased public safety and general government expenditures. The business-type revenues decreased slightly by \$0.4 million to \$61.7 million while expenses increased by \$6.2 million to \$58.6 million. After transfers, the change in business-type net assets amounted to \$-1.1 million.

<p style="text-align: center;">CITY OF NAPA MANAGEMENT'S DISCUSSION AND ANALYSIS</p>
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FINANCIAL ANALYSIS OF THE CITY'S FUNDS

In addition to the accrual-basis government-wide statements described above, the City also maintains financial records at the fund level for budgetary control. Individual funds are generally established to track the resources and operating results for specific, restricted programs. The results for governmental funds below differ from the results reported above in the government-wide statements since the focus here is on current, available resources. The following are financial highlights from the City's most significant funds:

Governmental Funds

General Fund - The City's General Fund realized \$63.1 million of revenues, an increase of \$3.4 million from the previous year. Of this amount, \$1.9 million was an increase in taxes (property, sales, transient occupancy taxes), \$0.7 million increase in intergovernmental, a \$0.4 million increase in Licenses, permits and fees, and \$0.6 million increase each in Charges for Services. These increases were partially offset by a \$0.2 million decrease in miscellaneous revenues.

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

Development Fees Fund - The sources of revenue for this fund are the various development impact fees collected from developers which are used for the installation or expansion of related infrastructure and affordable housing. Current year revenues were \$2.5 million, an increase of \$0.5 million from the prior year caused primarily by the increase in development over the prior year, signaling continued economic recovery. During the fiscal year, the fund contributed \$0.7 million to the City's Capital Projects Fund through transfers, with additional work scheduled for fiscal 2013.

City Capital Projects Fund - The City's capital program saw a decline in expenditures of nearly 36% due to the cyclical construction activity of capital projects. In total, \$7.5 million in capital outlay was expended during the current year. All resources in this fund are designated for specific capital improvement programs.

Enterprise Funds

Water Utility Fund – This fund is a fully self-supported enterprise providing water service to the City and adjacent areas. Charges for water and connection fees have consistently been set appropriately to cover both operating and planned maintenance, replacement and expansion costs. The fund issued bonds in 2007 to expand Jamieson Canyon Treatment Facility and construction began in 2008, and completed in fiscal 2011. Fund equity includes reserves for capital replacement and water supply reserve (\$0.4 million each) as well as an emergency reserve for the water utility (\$1.0 million).

Materials Diversion Fund - The materials diversion fund is also a fully self-supported enterprise which provides for local solid waste operations and operation of the materials diversion facility. Of the fund's \$20.2 million in operating expenses, \$2.4 million was for tipping fees. Fund equity includes reserves for rate stabilization (\$0.8 million) and capital replacement/maintenance (\$1.5 million).

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

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

CITY OF NAPA
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

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

Table 3
Capital Assets

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

DEBT ADMINISTRATION

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

Table 4
Long Term Debt

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

<p style="text-align: center;">CITY OF NAPA MANAGEMENT'S DISCUSSION AND ANALYSIS</p>
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ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The City of Napa was founded in 1847. For the past 30 to 40 years, the City of Napa has been in transition. The City that was once known for its tanneries, prune processing and State hospital is now more known for its hospitality, fine food, and luxury hotels. While yesterday's jobs came largely in heavy industrial pursuits at Kaiser Steel, Basalt Rock, Napa Pipe and Mare Island Shipyard, today's workforce is mostly white collar and the economy is increasingly based on tourism. The City of Napa has a population of 76,915 and accounts for 54 percent of the population and jobs within Napa County. The median household income within the City of Napa is \$65,309. During the 2011-12 fiscal year, the City continued to feel the impact of the economic recovery to the national financial downturn. The City experienced continued growth in Property and Sales tax, with a more significant rebound of over 16% in Transient Occupancy Taxes.

While the effects of the economic downturn will most likely continue to be felt for the next several years, indications are that the City of Napa will continue to see a steady economic recovery. Recent projections show increases in the City's major sources of revenue over the next several years. Unfortunately, the fiscal uncertainty at the State and National levels is cause for concern as world financial markets are unsteady, and we near the "fiscal cliff" in January, 2013. The City of Napa continues to explore alternatives for cost reduction and improvement of operational efficiency. Numerous cost saving measures have been implemented including employee concessions to help offset the impact of continued increases in healthcare and retirement costs for the City's workforce. The City of Napa Redevelopment Agency, along with all of the Redevelopment Agencies across the state was dissolved in FY 2011-12; however, the Housing Authority continues to invest in the community. The economic outlook for the City of Napa is positive and will be closely monitored to ensure that the City retains its position of fiscal stability.

CONTACTING THE CITY

These *Basic Financial Statements* are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department at 955 School Street, Napa, California. The mailing address is Post Office Box 660, Napa, California, 94559-0660.

CITY OF NAPA

**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

CITY OF NAPA
STATEMENT OF NET ASSETS
JUNE 30, 2012

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

In the Fund Financial Statements only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2012. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

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

DEVELOPMENT FEES SPECIAL REVENUE FUND

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

HOME PROGRAM SPECIAL REVENUE FUND

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

CITY CAPITAL PROJECTS FUND

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

CITY OF NAPA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

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

See accompanying notes to financial statements

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

Fund balances, as reported on the Governmental Funds Balance Sheet	\$60,270,793
Amounts reported for Governmental Activities on the Statement of Net Assets are different from those reported on the Governmental Funds Balance sheet because of the following:	
Capital assets:	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	349,116,263
Non-current revenues:	
Revenues which are deferred on the Governmental Fund Balance Sheets because they are not currently available are taken into revenue on the Statement of Activities.	
Affordable housing loans	17,658,753
Internal Service Fund net assets:	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain centralized activities, such as insurance, stores, and vehicle maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included as Governmental Activities on the Statement of Net Assets.	11,868,925
Long-term liabilities and related accounts:	
The liabilities below are not due and payable in the current period and therefore are not reported on the Governmental Funds Balance Sheet:	
Compensated absences	<div style="display: flex; justify-content: space-between;"> <div style="border-bottom: 1px solid black; width: 100px;"></div> <div>(2,305,428)</div> </div>
	(2,305,428)
Net assets of Governmental Activities, as reported on the Statement of Net Assets	<div style="border-bottom: 3px double black; width: 100px;"></div> <div>\$436,609,306</div>

See accompanying notes to financial statements

CITY OF NAPA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

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

See accompanying notes to financial statements

CITY OF NAPA
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	\$991,500
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Amounts reported for Governmental Activities on the Statement of Activities are different from those reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance because of the following:

Capital asset transactions:

Governmental Funds report capital outlays as expenditures. However, on the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

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

Non-current revenues:

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	(4,779,677)
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Internal service fund activities:

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

1,492,267

Long-term debt transactions:

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities on the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but on the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	1,730,000	
Net, reduction in vacation and sick leave payable	(4,485)	
Amortization of bond discount and costs	(415,086)	
Reduction in interest payable , net	281,513	
Long-term debt assumed by the Successor Agency	17,290,000	18,881,942

Change in Net Assets of Governmental Activities, as reported on the Statement of Activities	\$15,548,356
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See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Fund Balance			\$135,304	
Revenues:				
Intergovernmental revenues	\$436,000	\$436,000	412,213	(\$23,787)
Charges for services	116,217	116,217	85,884	(30,333)
Investment income			1,728	1,728
Total Revenues	552,217	552,217	499,825	(52,392)
Expenditures:				
Current:				
Community development	546,802	546,419	488,583	57,836
Total Expenditures	546,802	546,419	488,583	57,836
Other Financing Sources (Uses):				
Transfers (out)	(4,716)	(4,716)	(4,716)	
Total Other Financing Sources (Uses)	(4,716)	(4,716)	(4,716)	
Net Change in Fund Balances	\$699	\$1,082	6,526	\$5,444
Ending Fund Balance (Deficit)			\$141,830	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

WATER UTILITY FUND

The Water Utility Fund supports the operation, maintenance and improvement of the municipal water system serving the City and adjacent areas. The City provides an uninterrupted supply of high-quality and low-cost water to the community for consumption and fire protection.

MATERIALS DIVERSION UTILITY FUND

The Materials Diversion Utility Fund is responsible for the collection, processing, public education and long-term planning related to solid waste materials generated in the City of Napa.

GOLF COURSE FUND

The Golf Course Fund supports the management and maintenance of the City-owned, 18-hole golf Course at Kennedy Park in south Napa.

HOUSING FUND

The Housing Fund accounts for activities of the Housing Authority which provides and administers affordable housing programs and services to qualified residents. The Housing Authority administers Federal funds including Section 8 Housing Vouchers county wide; Mainstream Vouchers county-wide; Mod Rehab project based rental assistance; Continuum of Care Funds; the 20% Housing Set-Aside from the Redevelopment Agency; the Local Housing Fund; the Operating Reserve Fund and the Management of Housing Authority owned properties.

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

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

See accompanying notes to financial statements

CITY OF NAPA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

FIDUCIARY FUNDS

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

Agency Funds

Payroll Fund

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

Napa Valley Corporate Park Assessment District Fund

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

Private Purpose Trust Fund

Successor Agency to the Napa Community Redevelopment Agency

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

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

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

See accompanying notes to financial statements

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

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

See accompanying notes to financial statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
--

A. Reporting Entity

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

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

The Napa Community Redevelopment Agency (the Redevelopment Agency) was established pursuant to the Community Redevelopment Law of the State of California. The City Council established the Redevelopment Agency on November 19, 1962, and designated itself as the governing body. The State of California dissolved the Napa Community Redevelopment Agency (and all other State Redevelopment Agencies) effective February 1, 2012. All remaining balances of the Napa Community Redevelopment Agency (as of January 31, 2012) were transferred to the Successor Agency Trust Fund effective February 1, 2012.

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

The Parking Authority of the City of Napa (the Parking Authority) was established pursuant to the Streets and Highways Code of the State of California. The City Council established the Parking Authority on April 27, 1970 and designated itself as the governing body. The primary purpose of the Authority is to acquire, maintain and operate off-street parking facilities within the City. The Parking Authority reports no financial transactions during the year ended June 30, 2012.

The City of Napa Public Facilities Financing Authority (the Financing Authority) was established in April, 1985 as a tax exempt corporation with the power to purchase, lease, assign, encumber or otherwise dispose of any real or personal property. The primary purpose of the Financing Authority is to render financial assistance to the City by financing the purchase or construction of public facilities. The City Council is the governing body of the Financing Authority. The Financing Authority reports no financial transactions during the year ended June 30, 2012.

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

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

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

C. Major Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City also reports the following fund types:

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

The City also reports the following fiduciary fund types:

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

E. Cash and Investments

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

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

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

F. Tax Revenue

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

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

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

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

G. Inventories

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

H. Capital Assets

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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

	Governmental Activities	Business -type Activities	Total
Beginning balance	\$ 2,367,854	\$ 353,997	\$ 2,721,851
Additions	128,651	95,197	223,848
Payments	(137,038)	(6,792)	(143,830)
Ending balance	<u>2,359,467</u>	<u>442,402</u>	<u>2,801,869</u>
Current portion	<u>\$ 29,030</u>	<u>\$ 127,371</u>	<u>\$ 156,401</u>

J. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – BUDGETARY INFORMATION

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

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

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

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

NOTE 2 – BUDGETARY INFORMATION (Continued)

The budget is prepared at the fund, function and department levels. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to make transfers between the departments. All other adjustments or changes require City Council approval. The legal level of budgetary control is the department level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year. Supplemental appropriations during the year ended June 30, 2012, were not significant relative to the budget as a whole.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 3 – CASH AND INVESTMENTS

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

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

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

A. Deposits

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

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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

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

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

C. Investments Authorized by Debt Agreements

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

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

D. Disclosures Relating to Interest Rate Risk

The City manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments as of June 30, 2012, by maturity:

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

E. Disclosures Relating to Credit Risk

Credit Risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as June 30, 2012, for each investment type.

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-/A1/A1+	Total
<i>Held by Trustees:</i>				
Certificates of Deposit		\$1,001,761	\$500,021	\$1,501,782
Corporate Notes	\$261,627	4,278,801	5,019,131	9,559,559
Money Market Funds	1,851,969			1,851,969
Federal Agency Securities		33,135,714		33,135,714
Total	<u>\$2,113,596</u>	<u>\$38,416,276</u>	<u>\$5,519,152</u>	<u>46,049,024</u>
<i>Not Rated:</i>				
Local Agency Investment Fund				45,198,817
<i>Exempt from credit rating disclosure:</i>				
U.S. Treasury Notes				10,959,248
<i>Cash in banks and on hand</i>				<u>6,274,124</u>
Total Cash and Investments				<u>\$108,481,213</u>

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

F. Investments in Local Agency Investment Funds

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2012, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

G. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total investments in Entity-wide, individual major funds, non-major funds in the aggregate, or fiduciary fund type investments are as follows at June 30, 2012:

Reporting Unit	Issuer	Investment Type	Amount
Entity - Wide:	Federal National Mortgage Association	Federal Agency Securities	\$10,523,425
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	6,825,419
	Federal Home Loan Bank	Federal Agency Securities	8,735,793
Fiduciary Funds: Successor Agency to the Napa Community Redevelopment Agency	Federal Farm Credit Bank	Federal Agency Securities	1,016,874
	Federal National Mortgage Association	Federal Agency Securities	722,157
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	657,800
	Federal Home Loan Bank	Federal Agency Securities	554,631

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

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers

Transfers report the contribution of resources from one fund to another. The following is a summary of transfers for the year ended June 30, 2012:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Home Program Fund	\$4,716 [A]
	Non-Major Governmental Funds	792,231 [A]
	Water Utility Fund	1,784,654 [A]
	Materials Diversion Utility Fund	773,967 [A]
	Housing Fund	119,205 [A]
	Internal Service Funds	511,625 [A]
Development Fees Fund	Non-Major Governmental Funds	160 [A]
City Capital Projects Fund	General Fund	540,645 [C]
	Development Fees Fund	661,298 [C]
	Non-Major Governmental Funds	1,832,180 [C]
Golf Fund	General Fund	100,000 [B]
Non-major Governmental Funds	General Fund	162,682 [B]
	City Capital Projects Fund	103,000 [B]
	Non-Major Governmental Funds	2,935,466 [B]
	Water Utility Fund	100,000 [C]
	Materials Diversion Utility Fund	1,500,000 [C]
Internal Service Funds	General Fund	98,462 [B]
	City Capital Projects Fund	49,303 [B]
		<u>\$12,069,594</u>
Total Interfund Transfers		

[A] To Fund Citywide Overhead

[B] To Fund Operations

[C] To Fund Capital Projects

B. Interfund Balances

Interfund balances are loans between funds to provide either short-term cash flow or funding for longer-term projects. The following is a summary of interfund balances as of June 30, 2012:

Asset	Liability	
From Fund:	To Fund:	Amount
Due to/from other funds:		
General Fund	Golf Course Fund	\$284,731
	Development Fee Fund	278
	Home Program Fund	657
	Internal Service Funds	725,042
City Capital Projects Fund	Development Fee Fund	44,862
		<u>\$1,055,570</u>
Advances to/from other funds:		
General Fund	Golf Course Fund	\$482,850 [A]
Development Fees Fund	Golf Course Fund	183,600 [B]
City Capital Projects Fund	Golf Course Fund	675,000 [A]
		<u>\$1,341,450</u>

[A] To fund capital improvements at the City's golf course and payable from operating surplus.

[B] Quadrant Development Fee advance used to fund Golf Course water irrigation surcharge.

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

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

C. Internal Balances

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

NOTE 5 – LOANS RECEIVABLE

The City has extended long-term loans to support affordable housing and economic development. All loans are secured by real estate. Since some of these loans are secured by trust deeds which are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result, a portion of the outstanding balances of the loans has been offset by a valuation allowance. These long-term loans receivable consisted of the following at June 30, 2012:

	Term (Years)	Rate %	Outstanding Balance at June 30, 2012
General Fund			
Napa Valley Opera House	15	4%	\$1,500,000
Home Program:			
First time homebuyers down payment assistance	20-30	3%	6,298,220
The Reserve at Napa	30	3%	874,000
Whistlestop	30	3%	939,632
CDBG Housing Rehabilitation Program	20	3-10%	1,358,538
20% Low- and Moderate Income Housing:			
Mayacamas Village Associates	30	4%	485,767
Napa Park Apartments	30	3%	254,805
Parkwood Project	40	0%	80,942
Silverado Creek Apartments	45	3.5%	3,082,983
Pecan Court Project	40	4%	735,067
Schoolhouse Project	40	0%	591,166
First time homebuyers down payment assistance	20-30	3%	806,200
Jefferson Street Senior Housing (NVCH)	40-41/60	0-3.5%	300,000
Napa Garden Court	55	4%	1,540,000
Rohlffs Concordia Manor	55	1%	785,000
Rohlffs Manor III	55	3%	250,000
Supplemental - Bain, Thomas	0	0%	125,100
Local Housing Fund:			
Pioneer Village	various	7%	99,420
Pueblo Orchard	10	3.5%	46,000
Charter Oaks	25	3.5%	237,500
Housing and Inclusionary Fund :			
Magnolia Park	55	3.5%	300,000
Jefferson Street Housing (NVCH) - City	60	0%	514,431
Napa Garden Court Associates	5	3%	230,000
County of Napa	55	0%	500,000
Cal Home Grant	5	3%	492,525
Laurel Manor			
Whistle Stop Town homes	35	3.5%	44,000
Magnolia Park	55	3.5%	221,125
Water Loan			
Successor Agency to the Redevelopment Agency Private Purpose Trust Fund	9	4%	811,299
American Canyon	7	4%	350,000
Totals, before interest and valuation allowance			23,853,720
Accrued Interest			2,336,576
Valuation allowance			(2,983,699)
Net			<u>\$23,206,597</u>

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

NOTE 6 – LAND HELD FOR REDEVELOPMENT

As of June 30, 2012, the balance of land being held for future development amounted to \$125,691. However, the City had not entered into any development agreement as of June 30, 2012.

NOTE 7 – CAPITAL ASSETS

A. Additions and Retirements

Governmental-type capital assets activity for the year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers to Successor Agency	Transfers and Adjustments	Balance at June 30, 2012
Governmental Activities						
Capital assets not being depreciated:						
Land	\$24,503,141			(\$35,480)	\$305,000	\$24,772,661
Construction in progress	86,118,810	\$7,540,517	(\$133,776)		(1,205,734)	92,319,817
Total capital assets not being depreciated	110,621,951	7,540,517	(133,776)	(35,480)	(900,734)	117,092,478
Capital assets being depreciated:						
Building and improvements	27,365,600			(75,400)	166,100	27,456,300
Equipment	6,184,779	109,430		(7,238)	(14,267)	6,272,704
Vehicles	13,706,095	1,485,367	(399,504)		855,600	15,647,558
Bridges	28,066,680					28,066,680
Roads	398,751,569	3,175,280				401,926,849
Curb/gutter/sidewalks	5,371,565				184,034	5,555,599
Traffic signals	4,261,512					4,261,512
Stormwater	4,428,822	51,414				4,480,236
Park improvements	4,508,858					4,508,858
Underground utilities	64,761					64,761
Street lights	1,407,671					1,407,671
Total capital assets being depreciated	494,117,912	4,821,491	(399,504)	(82,638)	1,191,467	499,648,728
Less accumulated depreciation for:						
Building and improvements	(15,597,728)	(611,770)		75,400		(16,134,098)
Equipment	(5,639,137)	(214,986)		1,206		(5,852,917)
Vehicles and rentals	(7,982,050)	(962,267)	398,348			(8,545,969)
Bridges	(9,007,661)	(374,222)				(9,381,883)
Roads	(206,023,013)	(10,255,222)				(216,278,235)
Curb/gutter/sidewalks	(681,420)	(138,891)				(820,311)
Traffic signals	(651,109)	(106,539)				(757,648)
Stormwater	(412,359)	(106,163)				(518,522)
Park improvements	(1,578,627)	(215,916)				(1,794,543)
Underground utilities	(6,232)	(1,619)				(7,851)
Street lights	(138,904)	(35,192)				(174,096)
Total accumulated depreciation	(247,718,240)	(13,022,787)	398,348	76,606		(260,266,073)
Net capital assets being depreciated	246,399,672	(8,201,296)	(1,156)	(6,032)	1,191,467	239,382,655
Governmental activities capital assets, net	<u>\$357,021,623</u>	<u>(660,779)</u>	<u>(\$134,932)</u>	<u>(\$41,512)</u>	<u>\$290,733</u>	<u>\$356,475,133</u>

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

NOTE 7 – CAPITAL ASSETS (Continued)

Business-type capital assets activity for the year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2012
<i>Business-type Activities</i>					
Capital assets not being depreciated:					
Land and improvements	\$5,506,614				\$5,506,614
Construction in progress	46,544,833	\$5,380,346			51,925,179
Total capital assets not being depreciated	52,051,447	5,380,346			57,431,793
Capital assets being depreciated:					
Building and improvements	41,675,845				41,675,845
Equipment	5,609,091	141,420	(\$261,812)		5,488,699
Transmission and distribution	100,562,808			\$3,930,890	104,493,698
Total capital assets being depreciated	147,847,744	141,420	(261,812)	3,930,890	151,658,242
Less accumulated depreciation for:					
Building and improvements	(21,223,443)	(1,049,570)			(22,273,013)
Equipment	(2,678,031)	(265,827)	231,335		(2,712,523)
Transmission and distribution	(42,046,303)	(2,172,849)		(3,930,890)	(48,150,042)
Total accumulated depreciation	(65,947,777)	(3,488,246)	231,335	(3,930,890)	(73,135,578)
Net capital assets being depreciated	81,899,967	(3,346,826)	(30,477)		78,522,664
Business-type activities capital assets, net	\$133,951,414	\$2,033,520	(\$30,477)		\$135,954,457

B. Depreciation Allocation

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

Governmental activities		Business-type activities	
General government	\$307,344	Water utility	\$2,980,929
Public safety	271,992	Materials Diversion Utility	279,802
Public works	11,243,649	Golf course	159,214
Parks and recreation	135,304	Housing	68,301
Redevelopment	85,740		
Internal Service Funds	978,758	Total	\$3,488,246
Total	\$13,022,787		

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

NOTE 8 – OPERATING LEASES

The operators of the golf course entered into various leasing agreements with vendors for its golf carts, restaurant appliances and office equipment that expire at dates through December of 2016. On May 18, 2012, a lease with John Deere was signed for \$21,550, commencing June of 2012 and ending June of 2017 with a minimum monthly payment of \$388. The operator is currently leasing its telephone equipment on a month-to-month basis. Total equipment lease expense was \$58,809 for the year ended June 30, 2012.

The future minimum lease payments are as follows:

Total Lease Payments	
Year Ending June 30	Payments
2013	\$50,352
2014	12,165
2015	3,715
2016	1,680
2017	840
Total	<u><u>\$68,752</u></u>

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

NOTE 9 – LONG-TERM DEBT

A. Current Year Transactions and Balances

The following table summarizes the changes in the City's long-term debt and other non-current liabilities during the year ended June 30, 2012:

	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Transfer to Successor Agency	Balance June 30, 2012	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	\$16,080,000		(\$1,460,000)	(\$14,620,000)		
2003B Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,475,000	1,600,000		(145,000)	(1,455,000)		
2003B Refunding Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,050,000	1,340,000		(125,000)	(1,215,000)		
Total Redevelopment Tax Allocation Bonds		19,020,000		(1,730,000)			
Fleet Capital Fund Capital Lease, 3.5%, 2/1/15	328,846	218,874	\$4,003	(58,638)		\$164,239	\$61,902
Total Governmental Activities Debt		\$19,238,874	\$4,003	(\$1,788,638)	(\$17,290,000)	\$164,239	\$61,902
Business-type Activity Debt:							
Revenue Bonds							
2004 Solid Waste Revenue Bonds, 1.59-5.63%, due 8/1/2019	\$7,035,000	\$4,665,000		(\$430,000)		\$4,235,000	\$450,000
Less unamortized discount		(276,448)		22,116		(254,332)	
2007 Water Revenue Bonds 4-5%, due 5/1/2035	47,350,000	46,300,000		(1,095,000)		45,205,000	1,140,000
Plus unamortized premium (issuance cost)		1,117,837		(46,577)		1,071,260	
Total revenue bonds		51,806,389		(1,549,461)		50,256,928	1,590,000
Water Fund Note Payable - Alston Park Tank 2.6%, due 4/1/2023	3,080,000	1,993,672		(150,724)		1,842,948	154,869
Seminary Street, 5.5%, due 7/31/2027	1,244,000	976,158		(39,407)		936,751	41,810
Umpqua Bank Notes Payable - Solar Panel 4.37%, due 7/01/2025	1,400,000	1,120,161		(59,009)		1,061,152	61,520
State of CA-Dept of Water Resources Notes Payable Imola Avenue reservoir tank 2.4%, due 9/30/2026	2,976,131	2,445,117		(131,828)		2,313,289	135,243
Water Fund Capital Lease, 4.7% due 6/30/2035	29,014,737	20,596,661		(581,528)		20,015,133	608,935
Kennedy Park Golf Course Capital Lease, 4.34% due 6/30/2015		103,447	\$21,550	(51,086)		73,911	29,741
Total Business-type Activity Debt		\$79,041,605	\$21,550	(\$2,563,043)		\$76,500,112	\$2,622,118

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

NOTE 9 – LONG-TERM DEBT (Continued)
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B. Redevelopment Tax Allocation Bonds

The Redevelopment Tax Allocation Bonds were issued in August 2003 by the Napa Community Redevelopment Agency to provide funds for public improvements within, or of benefit to, the Parkway Plaza Redevelopment Project. The remaining obligation of the bonds were transferred to the Successor Agency to the Napa Community Redevelopment Agency Private Purpose Trust fund effective February 1, 2012, per State Legislation AB1x26 as discussed in Note 17.

C. Fleet Capital Lease

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

D. Water Fund Obligations

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

The pledge of future Water System Revenues ends upon repayment of the \$75.9 million in remaining debt service which is scheduled to occur in 2035. For fiscal year 2012, Water Fund Operating Revenues amounted to \$22.2 million and operating costs (including operating expenses, but not interest, depreciation or amortizations) amounted to \$12 million. Net Revenues available for debt service amounted to \$10.3 million which represented coverage of 3.2 over the \$3.3 million in debt service.

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

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

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

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

NOTE 9 – LONG-TERM DEBT (Continued)
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Water Fund Capital Lease – The City has a water supply contract with the Water District that is linked to a master contract between the Water District and the State of California. Under these contracts, the State of California built the North Bay Aqueduct and peripheral infrastructure and allocated the costs to the benefiting municipalities. The contract calls for an annual payment that includes capital and operating components as well as a charge for water. The contract is non-cancelable and expires in the year 2035. Under the terms of the contract, the City is liable for the capital components regardless of whether or not it receives water. For this reason, the City is treating this contract as a capital lease. The leased infrastructure has been capitalized together with the capital lease obligation. The implicit interest rate under the contract is approximately 4.7%. The infrastructure is being amortized over its useful life of 50 years. At June 30, 2012, the balance of the leased asset (representing use of the infrastructure and water rights) and related capital lease obligation were \$13,346,770 and \$20,015,133 respectively. Annual amortization of the asset is \$608,935. The contract bears an implicit interest rate at approximately 4.7%, payable through 2035.

E. Solid Waste Revenue Bonds

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

The pledge of future Solid Waste System Revenues ends upon repayment of the \$6 million in remaining debt service on the bonds which is scheduled to occur in fiscal 2020. As disclosed in the originating offering documents, projected net revenues are expected to provide coverage over debt service of 1.3 over the life of the bonds. For fiscal year 2012, Solid Waste System Revenues including operating revenues and non-operating interest earnings amounted to \$24.8 million and operating costs include operating expenses, but not interest, depreciation or amortizations and amounted to \$19.7 million. Net Revenues available for debt service amounted to \$5.1 million which represented coverage of 7.6 over the \$0.7 million in debt service.

F. Housing Authority Note Payable

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

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

NOTE 9 – LONG-TERM DEBT (Continued)

G. 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 \$257,913 and a net book value of \$123,732.

H. 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
2013	\$61,902	\$4,781	\$2,622,118	\$3,514,596
2014	63,521	2,618	2,731,406	3,404,185
2015	38,816	393	2,835,186	3,276,886
2016			2,941,647	3,182,195
2017			3,063,087	3,070,877
2018-2022			15,555,068	13,122,776
2023-2027			15,757,106	9,426,213
2028-2032			17,676,729	5,645,578
2033-2035			12,500,837	1,177,667
Total	<u>\$164,239</u>	<u>\$7,792</u>	75,683,184	<u>\$45,820,974</u>
Less unamortized premium (discount/issuance cost)			<u>816,928</u>	
Net long-term debt			<u>\$76,500,112</u>	

NOTE 10 – SPECIAL ASSESSMENT DEBT

Napa Valley Corporate Park Reassessment District No. 1997-1 bonds were issued in 1997 and refinanced in 2001. This bond issue did 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. This debt issue was paid off as of June 30, 2012.

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

NOTE 10 – SPECIAL ASSESSMENT DEBT (Continued)

A Mortgage Revenue Bonds

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

Year of Issue	Project	Original Principal	Maturity Date	Principal at June 30, 2012
City of Napa				
1992	Creekside Park A	\$2,890,000	July 1, 2024	\$1,865,000
1994	Creekside Park II A - Refunding	4,780,000	July 1, 2025	3,470,000
1995	Napa Park A, A-T, and A-IQ	7,100,884	June 20, 2035	4,845,884
	subtotal	<u>14,770,884</u>		<u>10,180,884</u>
Housing Authority				
1999	Silverado Creek A	4,863,000	June 1, 2031	3,975,000
2001	Vintage at Napa	7,500,000	June 15, 2034	6,085,000
2001	The Reserve at Napa	6,000,000	August 1, 2031	5,013,294
2001	Charter Oaks Apartments	4,215,000	August 1, 2018	3,548,043
2004	Magnolia Park Series 2004A	4,500,000	December 1, 2035	4,500,000
	subtotal	<u>27,078,000</u>		<u>23,121,337</u>
	Total	<u>\$41,848,884</u>		<u>\$33,302,221</u>

NOTE 11 – NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

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

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balance

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

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

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

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

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

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

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

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

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2012, are below:

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total
Nonspendables:						
Prepaid Expenses	\$26,294					\$26,294
Advance Due from Golf Fund	482,850	\$183,600		\$675,000		1,341,450
Loans Receivable	1,500,000					1,500,000
Land Held for Redevelopment					\$125,691	125,691
Total Nonspendable Fund Balances	2,009,144	183,600		675,000	125,691	2,993,435
Restricted for:						
Grants					927,051	927,051
PEG Reserve	19,690					19,690
Designated Projects and Programs		19,112,467	\$141,830			19,254,297
Tourism Improvement District		278,719				278,719
Federal Urban Aide				270,173		270,173
Gas Tax/ Prop 1B					1,159,478	1,159,478
Public Safety Programs					15,915	15,915
Total Restricted Fund Balances	19,690	19,391,186	141,830	270,173	2,102,444	21,925,323
Committed to:						
Red Light Camera					584,453	584,453
Building Reserve				3,253,430		3,253,430
Corp Yard Expansion				30,636		30,636
Low Flow Channel				181,270		181,270
Lone Oak Drainage				9,154		9,154
Street Resurfacing Program					216,887	216,887
Low Income Housing					5,190,823	5,190,823
Assessment Districts					5,004,237	5,004,237
Capital Projects				2,354,873		2,354,873
Various Rentals				131,230		131,230
Total Committed Fund Balances				5,960,593	10,996,400	16,956,993
Assigned to:						
Outstanding Contractual Obligations	1,560,987					1,560,987
Emergency Reserve	7,486,672					7,486,672
Total Assigned Fund Balances	9,047,659					9,047,659
Unassigned:						
General fund	9,347,383					9,347,383
Total Unassigned Fund Balances	9,347,383					9,347,383
Total Fund Balances	\$20,423,876	\$19,574,786	\$141,830	\$6,905,766	\$13,224,535	\$60,270,793

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

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

C. *Encumbrances*

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Unexpended appropriations lapse at year-end and must be reappropriated in the following year unless carried forward in accordance with the City's policy. Encumbrances outstanding in governmental funds as of June 30, 2012, were as listed below:

Governmental Funds	
General	\$1,560,987
Development Fees	12,000
HOME Program	1,303
City Capital Projects	1,103,355
Other Governmental Funds	<u>288,621</u>
 Total	 <u><u>\$2,966,266</u></u>

D. *Deficit Net Assets and Fund Balance*

As of June 30, 2012, the Golf Course Enterprise Fund and Central Stores Internal Service Fund had fund deficits amounting to \$674,627 and \$21,307, respectively. The deficits will be eliminated with future revenue.

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

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 8% for miscellaneous employees or 9% for public safety employees of their annual covered salary. The City of Napa is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2012 was 20.939% for miscellaneous employees and 31.675% for public safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

C. Annual Pension Cost

For the year ended June 30, 2012, the City's annual pension cost was \$9,096,464. The required contribution for that year was determined as part of the June 30, 2010, actuarial valuation using the entry age normal cost method for miscellaneous employees and entry age normal cost method for safety employees with the contributions determined as a percent of pay, as amended in November, 2002 for a change in the safety plan benefit formula. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members (from 3.55% to 13.15% for safety members), and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%.

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

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

NOTE 12 – EMPLOYEE RETIREMENT SYSTEM (Continued)

D. Trend Information

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
Miscellaneous	6/30/2010	\$3,802,023	100%
	6/30/2011	3,425,936	100%
	6/30/2012	4,447,894	100%
Public Safety	6/30/2010	\$4,278,883	100%
	6/30/2011	3,782,385	100%
	6/30/2012	4,648,570	100%

E. Funding Status

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

	Valuation Date June 30:	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
Miscellaneous	2009	\$153,662,781	\$117,056,361	\$36,606,420	76%	\$21,714,083	169%
	2010	161,303,665	123,167,524	38,136,141	76%	21,776,039	175%
	2011	174,240,264	128,986,441	45,253,823	74%	21,586,618	210%
Public Safety	2009	152,758,690	118,719,972	34,038,718	78%	15,376,152	221%
	2010	160,144,064	124,678,041	35,466,023	78%	15,203,723	233%
	2011	169,719,728	130,470,096	39,249,632	77%	14,373,497	273%

F. Defined Contribution Plans

The City also provides defined contribution retirement benefits through IRS section 401(a) and 457 plans. The plans are administered by the International City Management Association Retirement Corporation and Nationwide Retirement Solutions. Plan provisions and contribution requirements are established and may be amended by City Council through negotiation with employee associations. The City contributes from \$50 to \$300 per month to its non-safety and management employees, depending upon employee group. In addition, the City contributes \$1,000 to \$1,250 for City executives. During the year ended June 30, 2012, the City fully funded its required contributions of \$295,545 to these plans.

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

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 & Exempt AMP	NCEA & Exempt NCEA	NPOA	NPOA MID	NCFA	NCFO	Exempt-Exces	Elected
■ Medical Plan	City Plan	City Plan	PEMHCA	PEMHCA	City Plan	City Plan	City Plan	City Plan
Tier 1 - Choice of Sick Leave Conversion to Retiree Single Party Health reimbursement or Supplemental Benfit								
■ Eligibility/DOH				Hired between 7/1/84 & 7/1/87;NPOA- Mid member <7/1/07				
Active eligible	<7/1/1982	<7/1/1983			<8/1/1982	opt out of HRA	<7/1/1982	N/A
Maximum hours	1	5	all members	2	1	1	0	N/A
	no cap	no cap	180 months	n/a	no cap	180 months	n/a	N/A
■ Eligibility/DOH					opt out of HRA			
Active eligible			all members		12			
Maximum hours			180 months		180 months			
Banked Credit			Not enrolled in PEMHCA, convert hrs to credit at single party Kaiser rate, credit banked for future use					
■ Sick Leave conversion for reimbursement	•One time irrevocable choice at retirement •Convert 8 hours unused sick leave to one month single party medical premium except NPOA Mid •No surviving spouse benefit for City Plan, if in PEMHCA min for surviving spouse •Sick leave accrual - 96 hour/year •Caps for medical premiums are indicated below. (Note: premiums include Medicare Part B premium)							N/A
■ Age & years of service	50 & 10	50 & 15	50 & 5	50 & 10	N/A	50 & 10	50 & 10	N/A
■ Supplemental Benefit	•\$274/month •EE lifetime •S/L conversion to CalPERS •No increase after retirement	•\$244/month •EE lifetime •S/L conversion to CalPERS •No increase after retirement	•S/L conversion to CalPERS	•\$237/month •EE lifetime •S/L conversion to CalPERS •EE lifetime	N/A	N/A •EE lifetime •S/L conversion to CalPERS •No increase after retirement	N/A •EE lifetime •S/L conversion to CalPERS •No increase after retirement	N/A
Tier 2 - Supplemental Benefit								
■ Age & years of service	50 & 10	50 & 15	N/A	50 & 10	N/A	50 & 10	50 & 10	50 & 8
■ Supplemental Benefit	•\$274/month •EE lifetime •No increase after retirement •S/L conversion to CalPERS	•\$244/month •EE lifetime •No increase after retirement •S/L conversion to CalPERS	N/A	•\$237/month •EE lifetime •No increase after retirement •S/L conversion to CalPERS	N/A	•\$246/month •EE lifetime •No increase after retirement •S/L balance converted to HRA @ 50% of hourly rate •Vacation balance deposited into HRA	•\$347/month •EE lifetime •No increase after retirement •S/L conversion to CalPERS	•\$347/month •EE lifetime •No increase after retirement
■ Cap (Tier 1)	• Single single Kaiser premium	• Single single Kaiser premium	Actual Premium	• Single single Kaiser premium	Actual Premium	Actual Premium	• Single single Kaiser premium	• Single single Kaiser premium
■ 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	• \$2,500 • Up to age 70	• \$2,500 • Up to age 70	None
■ Dental & Vision	None	None	None	None	None	None	None	None
■ Portable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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

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, and updated June 30, 2011. 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) 7.25% 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 2012 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 \$10,686,000 as of June 30, 2011, 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, 2012, the City contributed \$835,535 to current year premiums and pre-funded \$801,546 to CERBT Trust. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below:

	Retiree Health Benefits Internal Service Fund - <u>Governmental Activities</u>
Actuarial required contribution (ARC) and Annual OPEB cost (6/30/2012)	\$1,084,000
Amortization on the Net OPEB Liability	(67,000)
Interest on the Net OPEB Liability	<u>80,000</u>
Annual OPEB Cost	1,097,000
Contributions made:	
City portion of current year premiums paid	(835,535)
Contribution to CERBT Trust	<u>(801,546)</u>
Total Contributions	(1,637,081)
Contributions, in excess of Pension Cost	(540,081)
Net OPEB Obligation at June 30, 2011	<u>1,037,556</u>
Net OPEB Obligation at June 30, 2012	<u><u>\$497,475</u></u>

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

NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)

The City's annual required contributions and actual contributions for the years ended June 30, 2012, and the proceeding two years were 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>
6/30/2010	\$1,558,000	\$2,293,681	147%	\$1,237,066
6/30/2011	1,107,000	1,306,510	118%	1,037,556
6/30/2012	1,097,000	1,637,081	149%	497,475

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

<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>
6/30/2008	\$0	\$15,297,000	(\$15,297,000)	0.00%	\$34,149,000	-44.79%
12/31/2009	0	10,922,000	(10,922,000)	0.00%	34,927,000	-31.27%
6/30/2011	2,231,000	12,917,000	(10,686,000)	17.27%	32,613,000	-32.77%

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

NOTE 14 – RISK MANAGEMENT

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

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

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

Below is a reconciliation of changes in the aggregate liabilities for claims for the fiscal years ending June 30, 2011 and 2012:

	<u>2012</u>	<u>2011</u>
Claims liability - beginning	\$5,209,000	\$4,639,950
Changes in estimates for claims in prior years	996,371	1,488,960
Payments on claims	<u>(1,029,371)</u>	<u>(919,910)</u>
Claims liability - ending	<u><u>\$5,176,000</u></u>	<u><u>\$5,209,000</u></u>
Current portion	<u><u>\$1,641,750</u></u>	<u><u>\$1,617,000</u></u>

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

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.

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, 2012, is \$2,317,006.

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

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. *Redevelopment Dissolution*

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except action required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

In addition, ABx1 26 and AB1484 direct the State Controller to review the activities of all redevelopment agencies and successor agencies to determine whether an asset transfer between the agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. The State Controller's Office has scheduled, but not yet completed its asset transfer review.

Effective January 31, 2012 the Napa Community Redevelopment Agency was dissolved. Certain assets of the the Napa Community Redevelopment Agency were distributed to the Successor Agency.

The City elected to become the Successor Agency and on February 1, 2012 the the Napa Community Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members.

The activities of the Successor Agency are reported in the Successor Agency Private Purpose Trust Fund as the activities are under control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Napa Community Redevelopment Agency.

A summary of the the Napa Community Redevelopment Agency's assets distributed to and liabilities assumed by the Successor Agency and Housing Successor, reported as an Extraordinary Item is presented below:

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

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)
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	Governmental Funds (Prior to transfer)	Governmental Activities (Prior to transfer)	Transfer to Successor Agency	Ending Balance January 31, 2012
ASSETS				
Current assets:				
Cash and investments	\$1,103,683		(\$1,103,683)	
Total current assets	1,103,683		(1,103,683)	
Noncurrent assets:				
Restricted cash and investments	3,252,225		(3,252,225)	
Receivables				
Accounts	3,069		(3,069)	
Capital assets:				
Land		\$35,480	(35,480)	
Depreciable capital assets, net		6,032	(6,032)	
Total noncurrent assets	3,255,294	41,512	(3,296,806)	
Total Assets	4,358,977	41,512	(4,400,489)	
LIABILITIES				
Current liabilities:				
Accounts payable	18,704		(18,704)	
Accrued interest	350,257		(350,257)	
Long-term debt - current portion		1,800,000	(1,800,000)	
Payable to Housing Authority	17,856		(17,856)	
Advance from the City's Water Fund - current portion	100,547		(100,547)	
Due to City	1,983,652		(1,983,652)	
Total current liabilities	2,471,016	1,800,000	(4,271,016)	
Noncurrent liabilities:				
Advance from the City's Water Fund	689,177		(689,177)	
Long-term debt - due in more than one year		15,490,000	(15,490,000)	
Total noncurrent liabilities	689,177	15,490,000	(16,179,177)	
Total Liabilities	3,160,193	17,290,000	(20,450,193)	
NET ASSETS	\$1,198,784	(\$17,248,488)	\$16,049,704	

Cash and investments of the Successor Agency as of June 30, 2012 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2012.

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

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)
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B. 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 and improvements, and infrastructure, respectively.

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.

	Transfer from Redevelopment Agency February 1, 2012	Additions	Balance June 30, 2012
Governmental Activities			
Capital assets not being depreciated:			
Land	\$35,480		\$35,480
Capital assets being depreciated:			
Building and improvements	75,400		75,400
Equipment	7,238		7,238
Total capital assets being depreciated	82,638		82,638
Less accumulated depreciation for:			
Building and improvements	(75,400)		(75,400)
Equipment	(1,206)	(\$430)	(1,636)
Total accumulated depreciation	(76,606)	(430)	(77,036)
Net capital assets being depreciated	6,032	(430)	5,602
Governmental activities capital assets, net	\$41,512	(\$430)	\$41,082

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

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

C. Long-Term Debt

The Successor Agency assumed the long-term debt of the Redevelopment Agency as of February 2012.

(a) Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Transfer from Redevelopment Agency as of February 1, 2012	Balance June 30, 2012	Current Portion
Redevelopment Tax Allocation Bonds				
2003A Parkway Plaza Redevelopment				
Project, 2.3-4.8%, due 9/1/2019	\$22,715,000	\$14,620,000	\$14,620,000	\$1,525,000
2003B Parkway Plaza Redevelopment				
Project, 3.1-5.8%, due 9/1/2019	2,475,000	1,455,000	1,455,000	145,000
2003B Refunding Parkway Plaza				
Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,050,000	1,215,000	1,215,000	130,000
Total	\$27,240,000	\$17,290,000	\$17,290,000	\$1,800,000

(b) Redevelopment Tax Allocation Bonds

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.

Series B and C Bonds were issued to provide \$2.1 million for affordable housing projects and \$1.8 million for the refunding of the Housing Authority's 1999 revenue bonds. These bonds were secured by the Agency's 20% low & moderate set-aside of tax increment revenues. Upon dissolution of the Agency, the Successor Agency assumed this debt, which will be paid from distributions from the County's Redevelopment Property Tax Trust Fund (RPTTF).

With the dissolution of the Napa Community Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. In addition, under the provisions of the laws dissolving the Napa Community Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Using both property taxes received by the Napa Community Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution total collections were \$5,645,144 which represented coverage of 2.19 of the \$2,574,535 of debt service.

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

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

At June 30, 2012, future debt service requirement for the Redevelopment Tax Allocation Bonds were as follows:

Fiscal year ending June 30	Principal	Interest	Total
2013	\$1,800,000	\$774,034	\$2,574,034
2014	1,915,000	696,518	\$2,611,518
2015	2,010,000	606,933	\$2,616,933
2016	2,100,000	507,883	\$2,607,883
2017	2,200,000	404,255	\$2,604,255
2018-2022	7,265,000	538,896	\$7,803,896
Total	\$17,290,000	\$3,528,519	\$20,818,519

D. State Asset Transfer Review

The activities of the former Napa Community Redevelopment Agency and the Successor Agency are subject to further examination by the State of California and the amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time. In addition, the State Controller's Office will be conducting a review of the propriety of asset transfers between the former Napa Community Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011 and the amount, if any, of assets that may be required to be returned to the Successor Agency cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

E. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 18 – PRIVATE PURPOSE TRUST FUND CONTINGENT LIABILITIES
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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.

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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 Facilities

Community Development Block Grant

Traffic

Parking

Cal Home Grant

Public Safety Programs

Housing Inclusionary Program

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

City Debt Service

Parkway Plaza Debt Service

Soscol Gateway Debt Service

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

Street Resurfacing Projects

Parkway Plaza Capital Projects

Soscol Gateway Capital Projects

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

SPECIAL REVENUE FUNDS

	<u>Redevelopment Low- and-Mod</u>					
	<u>Parkway Plaza</u>	<u>Soscol Gateway</u>	<u>Assessment Districts</u>	<u>Community Facilities</u>	<u>Community Development Block Grant</u>	<u>Traffic</u>
ASSETS						
Cash and investments			\$3,835,449	\$229,883	\$774,032	\$1,464,509
Receivables:						
Accounts			326,727	86,256		39,626
Federal, state and other governments					114,410	
Interest receivable			11,285	677	2,278	4,308
Loans receivable					1,222,738	
Land held for redevelopment						125,691
Total Assets			<u>\$4,173,461</u>	<u>\$316,816</u>	<u>\$2,113,458</u>	<u>\$1,634,134</u>
LIABILITIES						
Accounts payable and accrued liabilities			\$5,228	\$31,833	\$43,482	\$49,495
Vacation and sick leave accrual						
Deposits payable			97,710		5,141	
Deferred revenue			4,250		1,222,196	
Total Liabilities			<u>107,188</u>	<u>31,833</u>	<u>1,270,819</u>	<u>49,495</u>
Fund balances (Deficit):						
Nonspendable						125,691
Restricted				284,983	842,639	874,495
Committed			4,066,273			584,453
Total Fund Balances (Deficit)			<u>4,066,273</u>	<u>284,983</u>	<u>842,639</u>	<u>1,584,639</u>
Total Liabilities and Fund Balances			<u>\$4,173,461</u>	<u>\$316,816</u>	<u>\$2,113,458</u>	<u>\$1,634,134</u>

				DEBT SERVICE FUND		
Parking	CAL Home Grant	Public Safety Programs	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
\$4,853,823	\$84,164	\$15,868	\$4,991,356			
9,041			27,775			
14,285	248	47	14,690			
	408,263		1,554,280			
<u>\$4,877,149</u>	<u>\$492,675</u>	<u>\$15,915</u>	<u>\$6,588,101</u>			
\$87,160			\$1,809			
5,619						
3,659,820						
	\$408,263		1,582,055			
3,752,599	408,263		1,583,864			
1,124,550	84,412	\$15,915	5,004,237			
1,124,550	84,412	15,915	5,004,237			
<u>\$4,877,149</u>	<u>\$492,675</u>	<u>\$15,915</u>	<u>\$6,588,101</u>			

(Continued)

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	CAPITAL PROJECT FUNDS			
	Redevelopment			Total Nonmajor Governmental
	Street Resurfacing	Parkway Plaza	Soscol Gateway	
ASSETS				
Cash and investments	\$437,720			\$16,686,804
Receivables:				
Accounts				489,425
Federal, state and other governments	115,619			230,029
Interest receivable				47,818
Loans receivable				3,185,281
Land held for redevelopment				125,691
Total Assets	<u>\$553,339</u>			<u>\$20,765,048</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$332,699			\$551,706
Vacation and sick leave accrual				5,619
Deposits payable	3,753			3,766,424
Deferred revenue				3,216,764
Total Liabilities	<u>336,452</u>			<u>7,540,513</u>
Fund balances (Deficit):				
Nonspendable				125,691
Restricted				2,102,444
Committed	216,887			10,996,400
Total Fund Balances (Deficit)	<u>216,887</u>			<u>13,224,535</u>
Total Liabilities and Fund Balances	<u>\$553,339</u>			<u>\$20,765,048</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, 2012

	SPECIAL REVENUE FUNDS					
	Redevelopment Low-and-Mod					
	Parkway Plaza	Soscol Gateway	Assessment Districts	Community Facilities	Community Development Block Grant	Traffic
REVENUES						
Taxes				\$462,211		
Intergovernmental					\$621,017	\$2,150,355
Charges for services			\$927,845	19,392	70,541	334,153
Investment income	\$8,972	\$2,057	37,638	5,694		770
Miscellaneous revenues						9,036
Total Revenues	8,972	2,057	965,483	487,297	691,558	2,494,314
EXPENDITURES						
Current:						
General government			124,201	481,033	646,803	
Public works			107,257			
Public safety						327,464
Parks and recreation			18,883			
Redevelopment						
County Fees and pass-through						
Capital outlay						
Debt service:						
Principal repayment	270,000					
Interest and fiscal charges	142,363					
Total Expenditures	412,363		250,341	481,033	646,803	327,464
Excess (Deficiency) of Revenues over (under) Expenditures	(403,391)	2,057	715,142	6,264	44,755	2,166,850
OTHER FINANCING SOURCES (USES)						
Transfers in						103,000
Transfers (out)			(1,259,987)		(139,492)	(2,141,144)
Total Other Financing Sources (Uses)			(1,259,987)		(139,492)	(2,038,144)
NET CHANGE IN FUND BALANCE BEFORE EXTRAORDINARY ITEM	(403,391)	2,057	(544,845)	6,264	(94,737)	128,706
EXTRAORDINARY ITEMS						
Assets transferred to/liabilities assumed by Successor Agency	(30,287)	(291,589)				
Net Change in Fund Balances	(433,678)	(289,532)	(544,845)	6,264	(94,737)	128,706
Beginning Fund Balances (Deficit)	433,678	289,532	4,611,118	278,719	937,376	1,455,933
Ending Fund Balances (Deficit)			\$4,066,273	\$284,983	\$842,639	\$1,584,639

DEBT SERVICE FUNDS						
Parking	CAL Home Grant	Public Safety Programs	Housing Inclusionary Program	City Debt Service	Redevelopment	
					Parkway Plaza	Soscol Gateway
					\$2,746,935	\$309,749
\$447,052	\$150,000		\$533,648			
113,102	2,000		73,367		51,508	5,638
	1,927	\$447				
560,154	153,927	447	607,015		2,798,443	315,387
	176,594		104,148		582,641	
292,381		628				123,842
150,925						
13,637						
					1,460,000	
					648,699	12,586
456,943	176,594	628	104,148		2,691,340	136,428
103,211	(22,667)	(181)	502,867		107,103	178,959
162,682					1,426,299	
(184,500)			(2,117)			(147,910)
(21,818)			(2,117)		1,426,299	(147,910)
81,393	(22,667)	(181)	500,750		1,533,402	31,049
					163,239	(458,977)
81,393	(22,667)	(181)	500,750		1,696,641	(427,928)
1,043,157	107,079	16,096	4,503,487		(1,696,641)	427,928
\$1,124,550	\$84,412	\$15,915	\$5,004,237			

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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, 2012

	CAPITAL PROJECT FUNDS			
	Redevelopment			Total Nonmajor Governmental
	Street Resurfacing	Parkway Plaza	Soscol Gateway	
REVENUES				
Taxes				\$3,518,895
Intergovernmental	\$174,651			3,096,023
Charges for services	41,500	\$1,106		2,377,237
Investment income	(2,450)	(33,995)	\$3,802	268,477
Miscellaneous revenues				9,036
Total Revenues	213,701	(32,889)	3,802	9,269,668
EXPENDITURES				
Current:				
General government				2,115,420
Public works				107,257
Public safety				620,473
Parks and recreation				169,808
Redevelopment		233,860	136,978	370,838
County Fees and pass-through				123,842
Capital outlay	3,212,893	58,546		3,285,076
Debt service:				
Principal repayment				1,730,000
Interest and fiscal charges				803,648
Total Expenditures	3,212,893	292,406	136,978	9,326,362
Excess (Deficiency) of Revenues over (under) Expenditures	(2,999,192)	(325,295)	(133,176)	(56,694)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,961,257		147,910	4,801,148
Transfers (out)		(1,654,308)	(30,579)	(5,560,037)
Total Other Financing Sources (Uses)	2,961,257	(1,654,308)	117,331	(758,889)
NET CHANGE IN FUND BALANCE BEFORE EXTRAORDINARY ITEM	(37,935)	(1,979,603)	(15,845)	(815,583)
EXTRAORDINARY ITEMS				
Assets transferred to/liabilities assumed by Successor Agency		(556,307)	(24,861)	(1,198,782)
Net Change in Fund Balances	(37,935)	(2,535,910)	(40,706)	(2,014,365)
Beginning Fund Balances (Deficit)	254,822	2,535,910	40,706	15,238,900
Ending Fund Balances (Deficit)	\$216,887			\$13,224,535

INTERNAL SERVICE FUNDS

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

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

Risk Management Fund

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

Central Stores Fund

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

Fleet Fund

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

IT Replacement Fund

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

Post-Employment Benefits Fund

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

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Risk Management</u>	<u>Central Stores</u>	<u>Fleet</u>	<u>IT Replacement</u>	<u>Post Employment Benefits</u>	<u>Total</u>
ASSETS						
Current Assets:						
Cash and investments	\$6,462,105		\$2,985,323	\$32,850		\$9,480,278
Accounts receivable			23,775		\$852,232	876,007
Federal, state and other governments	905,760					905,760
Interest receivable	19,020		8,496	97		27,613
Prepaid items	137,247					137,247
Inventory		\$435,876				435,876
Total Current Assets	<u>7,524,132</u>	<u>435,876</u>	<u>3,017,594</u>	<u>32,947</u>	<u>852,232</u>	<u>11,862,781</u>
Capital Assets:						
Nondepreciable			112,694			112,694
Depreciable, net		51,615	7,194,561			7,246,176
Total Assets	<u>7,524,132</u>	<u>487,491</u>	<u>10,324,849</u>	<u>32,947</u>	<u>852,232</u>	<u>19,221,651</u>
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	421,086	4,979	326,355	332		752,752
Compensated absences			12,209			12,209
Claims payable	1,641,750					1,641,750
Capital lease			61,902			61,902
Due to other funds		499,316			225,726	725,042
Total Current Liabilities	<u>2,062,836</u>	<u>504,295</u>	<u>400,466</u>	<u>332</u>	<u>225,726</u>	<u>3,193,655</u>
Long-Term Obligations:						
Net OPEB Obligation					497,475	497,475
Compensated absences		4,503	20,506			25,009
Capital lease			102,337			102,337
Claims payable	3,534,250					3,534,250
Total Liabilities	<u>5,597,086</u>	<u>508,798</u>	<u>523,309</u>	<u>332</u>	<u>723,201</u>	<u>7,352,726</u>
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt		51,615	7,143,016			7,194,631
Unrestricted	1,927,046	(72,922)	2,658,524	32,615	129,031	4,674,294
Total Net Assets (Deficits)	<u>\$1,927,046</u>	<u>(\$21,307)</u>	<u>\$9,801,540</u>	<u>\$32,615</u>	<u>\$129,031</u>	<u>\$11,868,925</u>

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Risk Management</u>	<u>Central Stores</u>	<u>Fleet</u>	<u>Information Technology</u>	<u>Post Employment Benefits</u>	<u>Total</u>
OPERATING REVENUES						
Charges for services	<u>\$4,211,959</u>	<u>\$632,011</u>	<u>\$3,560,033</u>	<u>\$178,930</u>	<u>\$1,655,000</u>	<u>\$10,237,933</u>
Total Operating Revenues	<u>4,211,959</u>	<u>632,011</u>	<u>3,560,033</u>	<u>178,930</u>	<u>1,655,000</u>	<u>10,237,933</u>
OPERATING EXPENSES						
Cost of goods sold		528,124				528,124
Employee services and benefits	63,019	106,210	761,781		1,160,706	2,091,716
Materials and services	2,377,542	13,478	1,455,570	142,032		3,988,622
Insurance premiums and claims	923,035					923,035
Depreciation		<u>4,487</u>	<u>974,271</u>			<u>978,758</u>
Total Operating Expenses	<u>3,363,596</u>	<u>652,299</u>	<u>3,191,622</u>	<u>142,032</u>	<u>1,160,706</u>	<u>8,510,255</u>
Operating Income (Loss)	<u>848,363</u>	<u>(20,288)</u>	<u>368,411</u>	<u>36,898</u>	<u>494,294</u>	<u>1,727,678</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	<u>103,526</u>	<u>(13,142)</u>	<u>36,291</u>	<u>(83)</u>	<u>1,857</u>	<u>128,449</u>
Total Nonoperating Revenues (Expenses)	<u>103,526</u>	<u>(13,142)</u>	<u>36,291</u>	<u>(83)</u>	<u>1,857</u>	<u>128,449</u>
Income (loss) before transfers	<u>951,889</u>	<u>(33,430)</u>	<u>404,702</u>	<u>36,815</u>	<u>496,151</u>	<u>1,856,127</u>
TRANSFERS						
Transfers in			147,765			147,765
Transfers (out)	<u>(318,801)</u>		<u>(192,824)</u>			<u>(511,625)</u>
Change in Net Assets	633,088	(33,430)	359,643	36,815	496,151	1,492,267
Beginning Net Assets (Deficits)	<u>1,293,958</u>	<u>12,123</u>	<u>9,441,897</u>	<u>(4,200)</u>	<u>(367,120)</u>	<u>10,376,658</u>
Ending Net Assets (Deficits)	<u><u>\$1,927,046</u></u>	<u><u>(\$21,307)</u></u>	<u><u>\$9,801,540</u></u>	<u><u>\$32,615</u></u>	<u><u>\$129,031</u></u>	<u><u>\$11,868,925</u></u>

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Risk Management	Central Stores	Fleet	Information Technology	Post Employment Benefits	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$4,238,955	\$632,011	\$3,527,849	\$178,930	\$822,093	\$9,399,838
Payments to suppliers	(2,198,675)	(560,128)	(1,249,830)	(141,752)		(4,150,385)
Payments to employees	(986,054)	(104,773)	(761,201)		(1,700,787)	(3,552,815)
Cash Flows from Operating Activities	<u>1,054,226</u>	<u>(32,890)</u>	<u>1,516,818</u>	<u>37,178</u>	<u>(878,694)</u>	<u>1,696,638</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in			147,765			147,765
Transfers out	(318,801)		(192,824)			(511,625)
Interfund receipts (payments)		46,032		(4,148)	225,726	267,610
Cash Flows from Noncapital Financing Activities	<u>(318,801)</u>	<u>46,032</u>	<u>(45,059)</u>	<u>(4,148)</u>	<u>225,726</u>	<u>(96,250)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets			(1,524,579)			(1,524,579)
Cash Flows from Capital and Related Financing Activities			<u>(1,524,579)</u>			<u>(1,524,579)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	<u>106,508</u>	<u>(13,142)</u>	<u>39,550</u>	<u>(180)</u>	<u>4,347</u>	<u>137,083</u>
Cash Flows from Investing Activities	<u>106,508</u>	<u>(13,142)</u>	<u>39,550</u>	<u>(180)</u>	<u>4,347</u>	<u>137,083</u>
Net Cash Flows	841,933		(13,270)	32,850	(648,621)	212,892
Cash and cash equivalents at beginning of period	<u>5,620,172</u>		<u>2,998,593</u>		<u>648,621</u>	<u>9,267,386</u>
Cash and cash equivalents at end of period	<u><u>\$6,462,105</u></u>		<u><u>\$2,985,323</u></u>	<u><u>\$32,850</u></u>		<u><u>\$9,480,278</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities:						
Operating income (loss)	\$848,363	(\$20,288)	\$368,411	\$36,898	\$494,294	\$1,727,678
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation		4,487	974,271			978,758
Change in assets and liabilities:						
Receivables, net	26,996		(7,470)		(832,907)	(813,381)
Other assets	3,179	580				3,759
Accounts payable and other accrued expenses	208,688	(19,106)	205,740	280		395,602
Net OPEB Obligation					(540,081)	(540,081)
Deferred revenue			(24,714)			(24,714)
Claims payable	(33,000)					(33,000)
Vacation and sick leave payable		1,437	580			2,017
Cash Flows from Operating Activities	<u><u>\$1,054,226</u></u>	<u><u>(\$32,890)</u></u>	<u><u>\$1,516,818</u></u>	<u><u>\$37,178</u></u>	<u><u>(\$878,694)</u></u>	<u><u>\$1,696,638</u></u>

FIDUCIARY FUNDS

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

Private Purpose Trust Fund

Successor Agency to the Napa Redevelopment Agency

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

Agency Funds

Payroll Fund

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

Napa Valley Corporate Park Assessment District Fund

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

CITY OF NAPA
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund
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ASSETS	
Restricted cash and investments held by fiscal agents	\$5,414,597
Receivables, net:	
Interest	20,657
Bond costs	363,200
Capital assets:	
Land	35,480
Depreciable	82,638
Less: Accumulated depreciation	(77,036)
	<hr/>
Total Assets	5,839,536
	<hr/>
LIABILITIES	
Accounts payable	41,360
Accrued interest payable	258,013
Unearned revenue	949,027
Loan payable to the City	811,299
Long-term debt	
Due within one year	1,800,000
Due in more than one year	15,490,000
	<hr/>
Total Liabilities	19,349,699
	<hr/>
NET ASSETS	
Held in Trust for private purpose	(\$13,510,163)
	<hr/> <hr/>

CITY OF NAPA
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN NET ASSETS
JUNE 30, 2012

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

CITY OF NAPA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<u>PAYROLL</u>				
Assets				
Cash and investments	\$682,179	\$142,546	(\$682,179)	\$142,546
Accounts receivable	134	1,322	(134)	1,322
Loan receivable	96,000	88,536		184,536
Total Assets	<u>\$778,313</u>	<u>\$232,404</u>	<u>(\$682,313)</u>	<u>\$328,404</u>
Liabilities				
Accounts payable	<u>\$778,313</u>	<u>\$232,404</u>	<u>(\$682,313)</u>	<u>\$328,404</u>
<u>NAPA VALLEY CORPORATE PARK ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$366,333		(\$284,597)	\$81,736
Restricted cash and investments	214,505		(214,505)	
Interest receivable	1,434	\$241	(1,434)	241
Total Assets	<u>\$582,272</u>	<u>\$241</u>	<u>(\$500,536)</u>	<u>\$81,977</u>
Liabilities				
Due to bondholders	<u>\$582,272</u>	<u>\$241</u>	<u>(\$500,536)</u>	<u>\$81,977</u>
<u>TOTAL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$1,048,512	\$142,546	(\$966,776)	\$224,282
Restricted cash and investments	214,505		(214,505)	
Accounts receivable	134	1,322	(134)	1,322
Interest receivable	1,434	241	(1,434)	241
Loan receivable	96,000	88,536		184,536
Total Assets	<u>\$1,360,585</u>	<u>\$232,645</u>	<u>(\$1,182,849)</u>	<u>\$410,381</u>
Liabilities				
Accounts payable	\$778,313	\$232,404	(\$682,313)	\$328,404
Due to bondholders	582,272	241	(500,536)	81,977
Total Liabilities	<u>\$1,360,585</u>	<u>\$232,645</u>	<u>(\$1,182,849)</u>	<u>\$410,381</u>