



**Terry E. Krieg, CPA**  
Certified Public Accountant

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**Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
City of Calistoga  
Calistoga, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calistoga, California, (the City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Calistoga's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about 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. I believe that my audit provides a reasonable basis for my opinions.

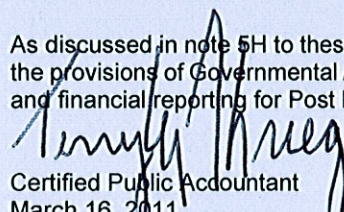
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calistoga, California, as of June 30, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 11 and pages 42 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Calistoga's basic financial statements. The accompanying introductory section, combining nonmajor fund financial statements and schedules, and statistical schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

In accordance with Government Auditing Standards, I have also issued my report dated March 16, 2011 on my consideration of the City of Calistoga's internal control over financial reporting and on my 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 my 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 my audit.

As discussed in note 5H to these financial statements, the City in fiscal 2010 changed its accounting principles to implement the provisions of Governmental Accounting Standards Board Statements Numbers 45 and Number 51 pertaining to accounting and financial reporting for Post Employment Benefits Other Than Pensions and Intangible Assets, respectively.

  
Certified Public Accountant  
March 16, 2011

This section of the *City of Calistoga's* annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the City's audited financial statements, which follow this section.

## **FINANCIAL HIGHLIGHTS**

- The City's fiscal 2010 total net assets increased by nearly \$.7 million over fiscal 2009 after conducting all City operations and programs. The assets of the City exceeded its liabilities by about \$29 million at the end of the 2010 fiscal year. Of that amount, there is an overall surplus of \$ .6 million (the unrestricted net assets) that is available to meet the City's ongoing obligations and operating expenses for the next fiscal year. About 77 % of the City's net assets are invested in capital assets such as the water and wastewater system.
- Overall City-wide revenues from all governmental and business-type activities decreased by about \$1.5 million compared to the 2009 fiscal year for a 2010 total of about \$14.3 million. All of the decrease was related to governmental activities; and was primarily due to capital projects funded from grants and contributions during the prior year and decreases in sales and Transient Occupancy Tax revenues. Business-type activity revenues were virtually flat from the prior year. Total business-type revenues approximated \$ 4.0 million.
- The City's total expense of all programs in fiscal 2010 was about the same as in 2009 at about \$13.5 million.
- The General Fund reported a year end fund balance of \$.9 million at the end of the 2010 year. Of that \$.9 million, the City has designated about \$854,000 to be set aside for future cost increases and contingencies.
- The City business-type water and wastewater enterprise funds ended the 2010 fiscal year with net assets of \$ 14.1 million, most of which is invested in the water and wastewater facilities and systems (net of related debt).
- During fiscal 2008, an additional major fund, Capital Lease Projects, was created to account for the issuance of \$ 4.7 million in capital lease obligations for the capital funding of the community pool, fire station, public works and recreation facilities. During the 2008, 2009 and 2010 fiscal years, approximately \$2.3 million was spent out of that fund primarily for construction of the community pool. Expenditures were also made for some of the other capital projects including the Fire Station renovation project. That fund ended fiscal 2010 with a \$2.15 million fund balance.
- The City's other non-major governmental funds ended 2010 with about \$ 1.1 million available for special purposes; primarily capital, housing, and other special purposes.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of five parts – a *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, an optional section that presents *combining statements* for nonmajor governmental funds and budget to actual comparison statements and a *statistical* section. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like public safety, general government, community services, public works and other services were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the City's water and wastewater systems.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor funds, each of which are added together and presented in single columns in the basic financial statements. Also included are optional budgetary comparison statements for the City's nonmajor governmental funds.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-1  
Major Features of City of Calistoga  
Government-Wide and Fund Financial Statements**

	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
<b>Scope</b>	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, streets, general government, and community services	Activities the City operates similar to private businesses: the water and wastewater systems
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>&gt; Statement of net assets</li> <li>&gt; Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Balance sheet</li> <li>&gt; Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Statement of net assets</li> <li>&gt; Statement of revenues, expenses, and changes in net assets</li> <li>&gt; Statement of cash flows</li> </ul>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *the entire* City's' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are reported in two categories:

- *Governmental activities* – All of the City's basic services are included here, such as general government, police, fire, streets, public works, and community services. Property taxes, sales taxes, transient occupancy taxes, special and other taxes, user charges and fees and state, local and federal grants finance these activities.
- *Business-Type activities* - The City charges fees to customers to help cover the costs of certain services. The City's water and wastewater enterprises are reported here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- The City's major governmental funds, the General, HOME Grant Fund, CDBG Open Grant and Capital Lease Projects Funds, are reported in separate columns and all other non-major governmental funds are aggregated in a single column. The City's water and wastewater funds are reported separately each as a major fund.
- The City Council establishes other funds to control and manage money for particular purposes (such as restricted donations). Some funds are maintained to demonstrate that the City is properly using certain specific fees for their intended purpose (such as landscape maintenance fees).
- Other funds are maintained for similar purposes but in addition demonstrate the City's ability to repay its long-term debt obligations, such as capital lease obligations

The City has two kinds of funds:

- *Governmental funds* – The City's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* - The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions reported as business-type activities in the government-wide financial statements; the City's water and wastewater operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Calistoga's various functions. The City uses an internal service fund to account for its fleet of vehicles and equipment. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The proprietary fund statements provide separate information for the City's water and wastewater operations, both of which are considered to be major funds of the City. The internal service funds are presented in a separate column alongside the totals for the City's proprietary enterprise funds.

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

**Net Assets.** The City's combined net assets increased by about \$ .7 million between fiscal years 2009 and 2010 to \$ 29.3 million. About 77% of the net assets of the City are represented by the City's net investment in its capital assets such as buildings, land, equipment and facilities. The remaining 23% is essentially represented by cash, investments and receivables. About 85% of the City's total liabilities are represented by long-term obligations.

**Table A-1**  
**City of Calistoga Net Assets**  
(in millions of dollars)

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change
	2010	2009	2010	2009	2010	2009	2009 to 2010
Current and other assets	\$ 10.1	\$ 11.4	\$ 1.0	\$ 1.2	\$ 11.1	\$ 12.6	-11.9%
Internal balances	-	.4	-	(0.4)	-	-	0.0%
Capital assets	12.1	11.5	30.0	30.5	42.1	42.0	0.4%
<b>Total assets</b>	<b>22.2</b>	<b>23.3</b>	<b>31.0</b>	<b>31.3</b>	<b>53.2</b>	<b>54.6</b>	<b>-2.4%</b>
Long-term debt outstanding	5.3	5.7	15.7	16.3	21.0	22.0	-4.5%
Other liabilities	1.7	2.5	1.2	1.5	2.9	4.0	-27.5%
<b>Total liabilities</b>	<b>7.0</b>	<b>8.2</b>	<b>16.9</b>	<b>17.8</b>	<b>23.9</b>	<b>26.0</b>	<b>-8.1%</b>
<b>Net assets</b>							
Invested in capital assets	8.8	8.3	13.7	14.1	22.5	22.3	0.9%
Restricted	6.2	5.5	-	-	6.2	5.5	12.7%
Unrestricted	0.2	1.3	0.4	(0.6)	0.6	0.7	-14.3%
<b>Total net assets</b>	<b>\$ 15.2</b>	<b>\$ 15.1</b>	<b>\$ 14.1</b>	<b>\$ 13.5</b>	<b>\$ 29.3</b>	<b>\$ 28.6</b>	<b>2.4%</b>

**Changes in net assets.** The City's 2010 total revenues of about \$ 14.3 million was about \$ 1.5 million less than in 2009, a 9.5% decrease. This decrease was the result of one time grants and capital contributions received in 2009. During fiscal year 2010 about 40% of the City's total revenue came from some type of taxes including property, sales, transient occupancy, and other taxes. The rest comes from fees charged for services, state/local/federal grants and contributions. The total cost of all programs and services in 2010 was about \$13.5 million and includes a wide range of services such as police and fire protection, streets, public works, general administration, community services, water, and wastewater operations. (See Table A-2).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

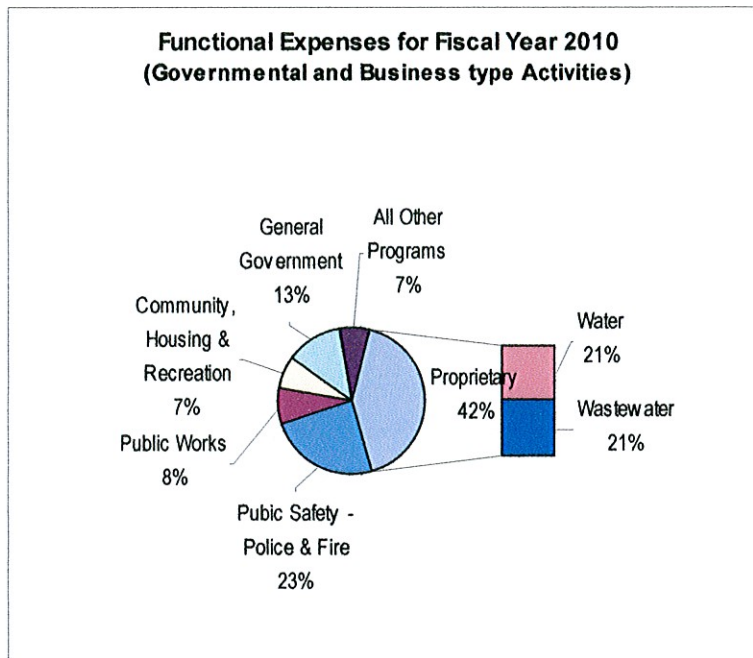
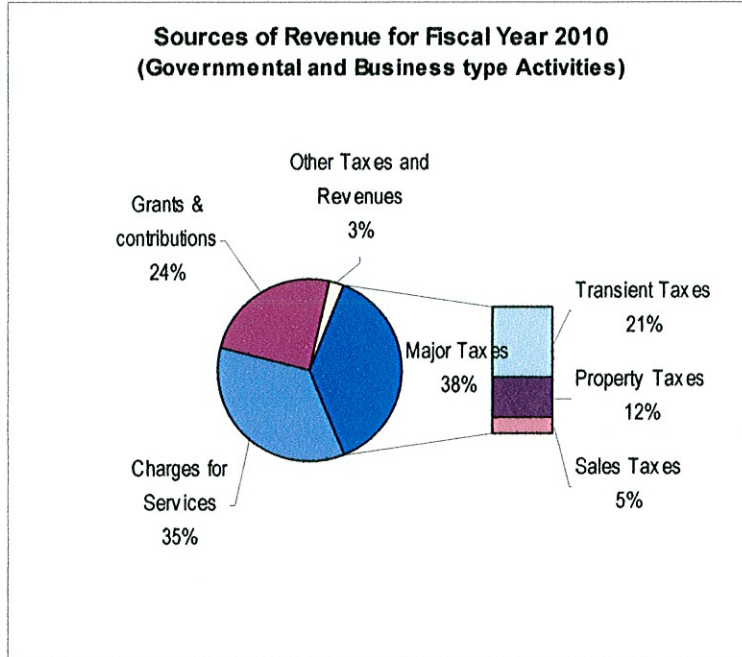
**Table A-2**

**Changes in the City of Calistoga's Net Assets**

(in millions of dollars)

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change 2009 to 2010
	2010	2009	2010	2009	2010	2009	
<b>Revenues</b>							
Program revenues							
Charges for services	\$ 0.9	\$ 1.1	\$ 4.0	\$ 4.1	\$ 4.9	\$ 5.2	-5.8%
Grants and contributions	2.6	2.9	1.0	1.5	3.6	4.4	-18.2%
General revenues							
Transient occupancy taxes	3.1	3.2	-	-	3.1	3.2	-3.1%
Property, Sales and other taxes	2.7	2.9	-	-	2.7	2.9	-6.9%
Other	-	0.1	-	-	-	0.1	-100.0%
<b>Total revenues</b>	<b>9.3</b>	<b>10.2</b>	<b>5.0</b>	<b>5.6</b>	<b>14.3</b>	<b>15.8</b>	<b>-9.5%</b>
<b>Expenses</b>							
General government	1.7	1.8	-	-	1.7	1.8	-5.6%
Public safety	3.2	3.1	-	-	3.2	3.1	3.2%
Community services	0.3	0.3	-	-	0.3	0.3	0.0%
Housing	0.1	0.1	-	-	0.1	0.1	0.0%
Recreation services	0.5	0.4	-	-	0.5	0.5	0.0%
Public works	1.1	1.2	-	-	1.1	1.2	-8.3%
Planning & Building	0.6	0.7	-	-	0.6	0.7	-14.3%
Water	-	-	2.9	2.7	2.9	2.7	7.4%
Wastewater	-	-	2.8	2.9	2.8	2.9	-3.4%
Other	0.3	0.2	-	-	0.3	0.2	50.0%
<b>Total expenses</b>	<b>7.8</b>	<b>7.9</b>	<b>5.7</b>	<b>5.6</b>	<b>13.5</b>	<b>13.5</b>	<b>0.0%</b>
<b>Excess (deficiency) before transfers and Special Items</b>	<b>1.5</b>	<b>2.3</b>	<b>(0.7)</b>	<b>-</b>	<b>0.8</b>	<b>2.3</b>	<b>-65.2%</b>
<b>Special Items</b>							
Community pool donations	-	1.6	-	-	-	1.6	-100.0%
<b>Transfers</b>	<b>(1.4)</b>	<b>0.1</b>	<b>1.4</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Increase(decrease) in net assets</b>	<b>0.1</b>	<b>4.0</b>	<b>0.7</b>	<b>(0.1)</b>	<b>0.8</b>	<b>3.9</b>	<b>-79.5%</b>
<b>Net assets, beginning</b>	<b>15.1</b>	<b>11.1</b>	<b>13.4</b>	<b>13.5</b>	<b>28.6</b>	<b>24.7</b>	<b>13.7%</b>
<b>Net assets, ending</b>	<b>\$ 15.2</b>	<b>\$ 15.1</b>	<b>\$ 14.1</b>	<b>\$ 13.4</b>	<b>\$ 29.3</b>	<b>\$ 28.6</b>	<b>2.8%</b>

The Sources of the City's major types of revenue and the areas where such resources are used is shown below in summary graphic form:



**Governmental and Business-Type Activities**

Revenues from all governmental type activities in fiscal year 2010 decreased about \$ .9 million to \$9.3 million compared to \$ 10.2 million in 2009. About 33 % of the revenue from governmental activities is derived from the Transient Occupancy tax (it is 45% of the General Fund revenue). The City's Transient Occupancy tax revenue decreased by \$ .1 million in 2010 primarily due to a softening in tourism activity during the fiscal year. The City received reductions in property tax allocations as a result of assessed valuation decreases.

As the above graph shows, the City's primary sources of revenue come from charges for services and tax revenues. About 76% of all City revenues are from taxes, water sales, wastewater fees, and local charges for services. The majority of the City's operating expenses are incurred to provide public safety, water and wastewater services. These three programs account for about 65 % of the City's total operating expenses in fiscal 2010.

When all operations were concluded, the governmental activities function reported about a \$ .1 million increase in net assets for fiscal 2010. This amount primarily reflects an increase in grants, contributions, and donations revenue received for capital projects. Net assets of business type-activities increased \$.6 million year over year. Table A-3 presents the cost of each of the City's five largest programs – public safety, public works, general administration, water and wastewater. The cost of all programs this year was \$ 13.5 million, compared to \$ 13.5 million in fiscal 2009; about the same total cost in both fiscal years.

<b>Table A-3</b>				
<b>Cost of City of Calistoga Programs</b>				
(in millions of dollars)				
	Total Cost of Services		Total Percentage Change	
	2010	2009	2009 to 2010	
Public Safety	\$ 3.2	\$ 3.1	3.2%	
General Government	1.7	1.8	-5.6%	
Public Works	1.1	1.2	-8.3%	
Water	2.9	2.7	7.4%	
Wastewater	2.8	2.9	-3.4%	
All other	1.8	1.8	0.0%	
<b>Total</b>	<b>\$ 13.5</b>	<b>\$ 13.5</b>	<b>0.0%</b>	

**Governmental Activities**

Users and contributors funded \$ 3.5 million of the \$ 7.8 million in costs of city's governmental activity programs leaving the City general revenues to fund the other \$ 4.3 million. General revenues were sufficient to pay for these services. The expense of governmental services was absorbed by:

- Those who directly benefited from or used the programs (about \$ 0.9 million), and
- Other governments and organizations that subsidized certain programs with grants and contributions (about \$ 2.6 million).

The City used general and tax revenues to pay the remaining operating costs which left a net assets increase of about \$ 0.1 million in the governmental activities.



**Business-Type Activities**

The City's business-type activities (water and wastewater) had a slight increase in net assets during the fiscal year. The water utility had cost increases from higher legal fees in fiscal 2010 compared to the prior year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed the year, its governmental funds reported a combined fund balance of about \$ 4.2 million, \$ 1.6 million lower than was reported at the end of fiscal year 2009. The costs of the City's General Fund operations were about \$ 1.0 million more than General Fund revenues. After transfers in and out, the General Fund reported a net \$ .4 million decrease. This was primarily due to a combination of an increase in one time capital outlay expenses and lower than anticipated transient occupancy tax, property, and sales tax revenues.

At year end, the City's General Fund had a fund balance of about \$ 0.9 million. Of the \$ 0.9 million, about \$854,000 is set aside for future financial contingencies. In addition, the City's other major and nonmajor governmental funds ended the 2010 fiscal year with a combined fund balance of \$3.3 million which is to be used only for certain specific future purposes.

**General Fund Budgetary Highlights**

Over the course of the year, the City Council made various revisions to the City budget. The budget amendments fall into two categories: changes made during the year for unanticipated appropriations and at the year end review for adjustments in revenues and costs and increases in appropriations to better reflect operations and improvements during the year. General Fund revenues ended the fiscal year \$.9 million over budgeted amounts due primarily to the write off of a contractual liability for the pool project. Actual General Fund expenditures were in line with final budget amounts when changes in capital project outlay are excluded. The General Fund expenditure budget changes from the original to final budgets were significant, due to changes in planned capital project expenditures for the Fire Station and Teen/Art Center.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2010, the City had invested \$ 41.7 million (net of accumulated depreciation) in a broad range of capital assets, including land, vehicles, equipment, the water system, wastewater system and other capital assets. (See Table A-4.) This amount represents a net decrease (including additions and deductions) of about \$ 0.6 million, or about 1.4%, less than last year. This is primarily due to accumulated depreciation realized during the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table A-4**

**City of Calistoga's Capital Assets**  
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change 2009 to 2010
	2010	2009	2010	2009	2010	2009	
Land	\$2.0	\$ 2.0	\$2.8	\$ 2.8	\$ 4.8	\$ 4.8	0.0%
Construction in progress	1.2	0.4	0.5	0.5	1.7	0.9	88.9%
Buildings	0.5	0.5			0.5	0.5	0.0%
Machinery and equipment	0.2	0.2			0.2	0.2	0.0%
Internal service equipment	0.8	0.9			0.8	0.9	-11.1%
Improvements	7.4	7.5			7.4	7.5	-1.3%
Water utility system			11.7	12.4	11.7	12.4	-5.6%
Wastewater system			14.6	15.1	14.6	15.1	-3.3%
<b>Total</b>	<b>\$ 12.1</b>	<b>\$ 11.5</b>	<b>\$ 29.6</b>	<b>\$ 30.8</b>	<b>41.7</b>	<b>\$ 42.3</b>	<b>-1.4%</b>

**This year's major capital assets additions included:**

In fiscal 2010, the City expended about \$ 1.1 on governmental related improvements. This was mainly due to construction in process costs of the Fire Station renovation project. The water and wastewater systems did not add any significant improvements during the fiscal year. The City has implemented infrastructure accounting and reporting to comply with financial reporting standards. The City has not recaptured the estimated and or historical costs of other major infrastructure assets put in service subsequent to fiscal year 1980 and prior to June 30, 2003. Under the national financial reporting standards, the City is not required to record such assets in its financial statements.

**Long Term Debt**

At the end of 2010, the City had about \$ 22.5 million in long-term debt and capital lease obligations outstanding, which is a net decrease of \$ 1.0 million from the prior year. Of the \$ 22.5 million, about 73% relates to the City's business-type activities, mainly the water and wastewater systems, and the remaining 27% is applicable to governmental type financing activities.

In the business-type activities of the \$16.3 million, about \$ 3.1 million is an installment loan agreement for wastewater system improvements, \$ 1.9 million in Certificates of Participation and a \$ 4.5 million state revolving loan obtained to provide financing for construction of the City's wastewater treatment plant facility. In 2006, the City refinanced the water revenue bonded debt of \$ 3.6 million and added \$ 2.0 million in a new installment loan agreement of \$ 5.3 million for water system improvements, which has \$ 4.8 million outstanding in 2010. In 2008, the City issued \$ 2.5 million in Certificates of Participation for water system improvements relating to Kimball reservoir, treatment plant and pipelines. The installment, certificate and loan payments are paid from service charges and other available resources of the water and wastewater systems as applicable.

The governmental-type activities includes long-term Lease debt of about \$.7 million in a capital lease entered into in prior years to retire prior debt used to build the City's current public safety facility and acquired Logvy Community Park. In 2008, the City entered into a \$100,000 equipment lease for replacement of public works vehicles. Also in 2008, the City issued \$ 4.7 million in a capital lease obligation for the funding of various community facilities, such as the community pool, fire station, public works facility and a new recreation center.

The capital lease payments are paid from general and special fund monies, and other available resources.

Additional information about the City's long-term obligations can be found in the notes to the financial statements starting on page 30.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the 2011 fiscal year, general fund revenue projections continue to be conservative and based on known changes in on going revenues from taxes and one time capital grants.

- Overall General Fund ongoing revenues are projected to be virtually flat next year over fiscal year 2010. While property tax assessed valuation is expected to be down during the upcoming fiscal year, other revenues in the charges for services category are expected to offset the decrease. Revenues have been projected conservatively and there are no other significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City.
- Rate increases are proposed for the water and wastewater systems in fiscal 2011. It is also planned to review and adjust the water and wastewater connection fees in 2011 to more fully recover costs for new or expanded development impacts.
- The General Fund 2011 budgeted operating appropriations are adopted \$ 6.8 million. This is a decrease of \$ 0.2 million or about 3% compared to final 2010 appropriations of \$ 7.0 million. The majority of this decrease is due to the reduction of expenditures through budget reductions, employee concessions, and positions being held vacant during the upcoming year. Another significant capital improvement project is scheduled for completion in 2011. That project is the renovation of the fire station facility.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please see the City WEB site at [www.ci.calistoga.ca.us](http://www.ci.calistoga.ca.us) or contact the Administrative Services Director/city Treasurer (City of Calistoga, 1232 Washington Street, Calistoga, California 94515, 707-942-2800 or [finance@ci.calistoga.ca.us](mailto:finance@ci.calistoga.ca.us)).

**CITY OF CALISTOGA**  
**Statement of Net Assets**  
**June 30, 2010**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,606,206	\$ 96,412	\$ 1,702,618
Net receivables	954,260	956,558	1,910,818
Internal balances	3,000	(3,000)	-
Prepayments	3,388	-	3,388
Inventory	7,532	-	7,532
<b>Total current assets</b>	<b>2,574,386</b>	<b>1,049,970</b>	<b>3,624,356</b>
Noncurrent assets:			
Restricted cash and cash equivalents	2,374,698	-	2,374,698
Receivables-long-term	5,123,763	-	5,123,763
Debt issuance costs	20,448	312,131	332,579
Net capital assets	12,098,333	29,648,324	41,746,657
<b>Total noncurrent assets</b>	<b>19,617,242</b>	<b>29,960,455</b>	<b>49,577,697</b>
<b>Total assets</b>	<b>\$ 22,191,628</b>	<b>\$ 31,010,425</b>	<b>\$ 53,202,053</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 250,872	\$ 151,290	\$ 402,162
Accrued liabilities	71,070	23,938	95,008
Contract retentions	96,490	-	96,490
Compensated absences	224,683	77,450	302,133
Deposits	184,340	131,271	315,611
Accrued interest payable	109,630	209,076	318,706
Claims and settlements	54,592	-	54,592
Bonds, leases, agreements, notes and certificates due in one year	409,333	539,624	948,957
<b>Total current liabilities</b>	<b>1,401,010</b>	<b>1,132,649</b>	<b>2,533,659</b>
Noncurrent liabilities:			
Compensated absences	128,000	20,000	148,000
Net other post employment benefit obligation	134,000	-	134,000
Bonds, leases, agreements, notes and certificates due in more than one year	5,311,493	15,729,179	21,040,672
<b>Total noncurrent liabilities</b>	<b>5,573,493</b>	<b>15,749,179</b>	<b>21,322,672</b>
<b>Total liabilities</b>	<b>6,974,503</b>	<b>16,881,828</b>	<b>23,856,331</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,772,653	13,691,652	22,464,305
Restricted for:			
Streets, recreation, capital projects	122,870	-	122,870
Public safety	351,060	-	351,060
Housing and community development	5,799,069	-	5,799,069
Unrestricted	171,473	436,945	608,418
<b>Total net assets</b>	<b>15,217,125</b>	<b>14,128,597</b>	<b>29,345,722</b>
<b>Total liabilities and net assets</b>	<b>\$ 22,191,628</b>	<b>\$ 31,010,425</b>	<b>\$ 53,202,053</b>

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services		City Government		Total
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>City government</b>						
<b>Governmental activities:</b>						
General government	\$ 1,672,657	\$ -	\$ -	\$ (1,413,673)	\$ -	\$ (1,413,673)
Public safety	3,175,941	132,501	264,605	(2,452,046)	-	(2,452,046)
Community services	309,074	-	720,154	420,318	-	420,318
Housing	124,359	-	1,268,936	1,192,220	-	1,192,220
Recreation services	542,515	14,509	-	(399,211)	-	(399,211)
Public works	1,067,014	150,486	7,759	(883,566)	-	(883,566)
Planning and building	628,391	-	-	(471,360)	-	(471,360)
Interest on long-term debt	268,959	-	-	(268,959)	-	(268,959)
<b>Total governmental activities</b>	<b>7,788,910</b>	<b>297,496</b>	<b>2,261,454</b>	<b>(4,276,277)</b>	<b>-</b>	<b>(4,276,277)</b>
<b>Business-Type Activities:</b>						
Water	2,916,682	-	839,153	-	12,607	12,607
Wastewater	2,784,072	-	113,035	-	(731,396)	(731,396)
<b>Total business-type activities</b>	<b>5,700,754</b>	<b>-</b>	<b>952,188</b>	<b>-</b>	<b>(718,789)</b>	<b>(718,789)</b>
<b>Total City government</b>	<b>\$ 13,489,664</b>	<b>\$ 297,496</b>	<b>\$ 3,213,642</b>	<b>(4,276,277)</b>	<b>(718,789)</b>	<b>(4,995,066)</b>
<b>General revenues and transfers</b>						
<b>General revenues:</b>						
<b>Taxes:</b>						
Property taxes				1,654,593	-	1,654,593
Transient occupancy taxes				3,042,315	-	3,042,315
Sales taxes				670,909	-	670,909
Other taxes				348,285	-	348,285
Motor vehicle in lieu fees not restricted to a specific program				15,665	-	15,665
Unrestricted investment earnings				11,517	-	11,517
<b>Transfers</b>				<b>(1,353,869)</b>	<b>1,353,869</b>	<b>-</b>
<b>Total general revenues and transfers</b>				<b>4,389,415</b>	<b>1,353,869</b>	<b>5,743,284</b>
<b>Change in net assets</b>				<b>113,138</b>	<b>635,080</b>	<b>748,218</b>
<b>Net assets, beginning</b>				<b>15,103,987</b>	<b>13,493,517</b>	<b>28,597,504</b>
<b>Net assets, ending</b>				<b>\$ 15,217,125</b>	<b>\$ 14,128,597</b>	<b>\$ 29,345,722</b>

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund	HOME Grant Fund	CDBG Open Grant Fund	Capital Lease Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 350,092	\$ 29,123	\$ 187	\$ 2,374,698	\$ 1,124,904	\$ 3,879,004
Taxes receivable	770,988	-	-	-	-	770,988
Accounts receivable	89,364	-	-	-	7,455	96,819
Due from other governments	31,125	25,000	-	-	28,701	84,826
Accrued interest receivable	1,629	-	-	-	-	1,629
Internal balances-due from other funds	241,009	-	-	-	-	241,009
Prepayments	3,388	-	-	-	-	3,388
Notes receivable	-	3,048,588	1,250,586	-	824,609	5,123,763
<b>Total assets</b>	<b>\$ 1,487,593</b>	<b>\$ 3,102,691</b>	<b>\$ 1,250,773</b>	<b>\$ 2,374,698</b>	<b>\$ 1,985,669</b>	<b>\$ 10,201,424</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 208,949	\$ 29,082	\$ -	\$ -	\$ 2,834	\$ 240,865
Contract retentions payable	96,490	-	-	-	-	96,490
Accrued liabilities	71,070	-	-	-	-	71,070
Internal balances-due to other funds	-	25,041	-	215,968	-	241,009
Deposits	177,020	-	-	-	7,320	184,340
Deferred revenue	1,060	3,048,588	1,250,586	-	824,609	5,124,823
<b>Total liabilities</b>	<b>554,589</b>	<b>3,102,691</b>	<b>1,250,586</b>	<b>215,968</b>	<b>834,763</b>	<b>5,958,597</b>
<b>Fund balances:</b>						
<b>Unreserved, designated for:</b>						
Contingencies and emergencies	778,500	-	-	-	-	778,500
Claims	75,900	-	-	-	-	75,900
Capital projects	-	-	-	2,158,730	-	2,158,730
Open space and mobile home	78,604	-	-	-	-	78,604
Unreserved undesignated:	-	-	187	-	-	187
Unreserved reported in nonmajor	-	-	-	-	-	-
Debt service fund	-	-	-	-	1,707	1,707
Special revenue funds	-	-	-	-	1,149,199	1,149,199
<b>Total fund balances</b>	<b>933,004</b>	<b>-</b>	<b>187</b>	<b>2,158,730</b>	<b>1,150,906</b>	<b>4,242,827</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,487,593</b>	<b>\$ 3,102,691</b>	<b>\$ 1,250,773</b>	<b>\$ 2,374,698</b>	<b>\$ 1,985,669</b>	<b>\$ 10,201,424</b>
<b>Total Governmental Fund Balances</b>						<b>\$ 4,242,827</b>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds						11,331,934
Long-term receivables used in governmental activities are not current financial resources and are therefore deferred in the funds						5,124,823
The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets						444,881
Liabilities for other post employment benefit (OPEB) obligations do not result in the use of current financial resources and are not reported in the funds						(134,000)
Some liabilities, including bonds, leases, compensated absences, and accrued interest are not due and payable in the current period and are therefore not reported in the funds						(5,793,340)
<b>Net Assets of Governmental Activities</b>						<b>\$ 15,217,125</b>

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Statements of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

	General Fund	HOME Grant Fund	CDBG Open Grant Fund	Capital Lease Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 1,654,593	\$ -	\$ -	\$ -	\$ -	\$ 1,654,593
Sales taxes	670,909	-	-	-	-	670,909
Transient occupancy taxes	3,042,315	-	-	-	-	3,042,315
Other taxes	292,758	-	-	-	-	292,758
Licenses and permits	65,849	-	-	-	-	65,849
Fines and forfeits	42,577	-	-	-	-	42,577
Intergovernmental	352,660	1,268,936	-	-	247,535	1,869,131
Interest and rents	11,088	82	-	429	17,284	28,893
Charges for services	656,906	-	-	-	87,531	744,437
Miscellaneous	65,905	2,666	-	-	77,690	146,261
<b>Total revenues</b>	<b>6,855,560</b>	<b>1,271,684</b>	<b>-</b>	<b>429</b>	<b>430,050</b>	<b>8,557,723</b>
<b>EXPENDITURES</b>						
Current:						
General government	1,417,360	-	-	-	-	1,417,360
Public safety	3,021,896	-	-	-	41,723	3,063,619
Community services	373,314	-	-	-	-	373,314
Housing	-	1,246,643	-	-	117,881	1,364,524
Recreation services	350,003	-	-	-	9,020	359,023
Public works	901,194	-	-	-	40,775	941,969
Planning and building	616,410	-	-	-	-	616,410
Debt service:						
Principal	122,549	-	-	-	232,385	354,934
Interest	2,451	-	-	-	268,021	270,472
Capital outlay	1,104,295	-	-	-	-	1,104,295
<b>Total expenditures</b>	<b>7,909,472</b>	<b>1,246,643</b>	<b>-</b>	<b>-</b>	<b>709,805</b>	<b>9,865,920</b>
Excess (deficiency) of revenues over expenditures	(1,053,912)	25,041	-	429	(279,755)	(1,308,197)
<b>OTHER FINANCING SOURCES (USES)</b>						
Contractual settlements	720,154	-	-	-	-	720,154
Transfers in	774,646	-	-	-	502,113	1,276,759
Transfers out	(897,107)	(25,041)	-	(677,640)	(682,179)	(2,281,967)
<b>Total other financing sources (uses)</b>	<b>597,693</b>	<b>(25,041)</b>	<b>-</b>	<b>(677,640)</b>	<b>(180,066)</b>	<b>(285,054)</b>
<b>Net change in fund balances</b>	<b>(456,219)</b>	<b>-</b>	<b>-</b>	<b>(677,211)</b>	<b>(459,821)</b>	<b>(1,593,251)</b>
Fund balances, July 1	1,389,223	-	187	2,835,941	1,610,727	5,836,078
<b>Fund balances, June 30</b>	<b>\$ 933,004</b>	<b>\$ -</b>	<b>\$ 187</b>	<b>\$ 2,158,730</b>	<b>\$ 1,150,906</b>	<b>\$ 4,242,827</b>

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (1,593,251)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$ 1,157,291 exceed depreciation (\$357,991) in the current period.	
	799,300
Repayments of long-term debt principal and claims are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	
	354,934
Debt issuance costs are reported as an outflow of resources in the funds but are amortized to expenses in the statement of activities	
	(1,136)
Accrued interest payable on long-term debt does not require the use of current financial resources and is not reported in the funds until due	
	2,649
Governmental funds report compensated absences when payments are made or are immediately due. However, in the statement of activities these costs are recorded when incurred.	
	(13,150)
Internal service funds are closed by charging additional amounts or reducing charges to participating governmental activities to completely cover the internal service fund's costs for the year	
	(475,846)
Losses on general capital assets do not result in the use of current financial resources and are therefore not reported in the funds	
	(4,711)
Increases in long-term claim liabilities do not require the use of current financial resources and are not reported in the funds	
	(42,227)
Increases in other post employment benefit obligations do not result in the use of current financial resources and are not reported in the funds	
	(134,000)
Expenditures for long-term loans are a use of current financial resources in the funds and are reported as expenditures when made in the funds, but are not reported as expenses in the statement of activities; the loans are reported as assets in the statement of net assets.	
	1,242,536
Long-term receivables are deferred in the funds until collected and available for use. In the statement of activities, revenues are recognized when the receivable is recorded and not when it is collected	
	<u>(21,960)</u>
Net differences	<u>1,706,389</u>
Change in Net Assets of Governmental Activities	<u>\$ 113,138</u>

See accompanying notes to the basic financial statements



**CITY OF CALISTOGA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Enterprise Funds			Governmental Activities- Internal Service Fund
	Water	Wastewater	Totals	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 96,412	\$ -	\$ 96,412	\$ 101,900
Receivables(net)	581,098	375,460	956,558	-
Inventory	-	-	-	7,532
Internal balances	-	-	-	3,000
Total current assets	677,510	375,460	1,052,970	112,432
Noncurrent assets:				
Other assets:				
Debt issuance costs	165,880	146,251	312,131	-
Total other noncurrent assets	165,880	146,251	312,131	-
Capital assets:				
Land	2,338,730	464,108	2,802,838	-
Equipment and vehicles	998,707	612,932	1,611,639	2,782,967
Distribution and collection systems	14,831,096	19,668,057	34,499,153	-
Water rights, net of amortization	1,261,684	-	1,261,684	-
Construction in progress	521,364	1,946	523,310	-
Less accumulated depreciation	(5,317,338)	(5,732,962)	(11,050,300)	(2,016,568)
Net capital assets	14,634,243	15,014,081	29,648,324	766,399
Total noncurrent assets	14,800,123	15,160,332	29,960,455	766,399
Total assets	\$ 15,477,633	\$ 15,535,792	\$ 31,013,425	\$ 878,831
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 90,915	\$ 60,375	\$ 151,290	\$ 10,006
Accrued expenses	12,463	11,475	23,938	-
Compensated absences	38,725	38,725	77,450	-
Internal balances	-	3,000	3,000	-
Deposits	29,473	101,798	131,271	-
Accrued interest	85,761	123,315	209,076	6,059
Agreements, loans, and certificates due in one year	181,000	358,624	539,624	53,573
Total current liabilities	438,337	697,312	1,135,649	69,638
Noncurrent liabilities:				
State revolving loan payable	-	3,967,979	3,967,979	-
Certificate of participation	2,437,000	1,894,200	4,331,200	-
Installment agreement	4,530,000	2,900,000	7,430,000	-
Capital lease obligation	-	-	-	364,312
Compensated absences	10,000	10,000	20,000	-
Total noncurrent liabilities	6,977,000	8,772,179	15,749,179	364,312
Total liabilities	7,415,337	9,469,491	16,884,828	433,950
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,652,123	6,039,529	13,691,652	348,514
Unrestricted	410,173	26,772	436,945	96,367
Total net assets	\$ 8,062,296	\$ 6,066,301	\$ 14,128,597	\$ 444,881

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Enterprise Funds			Governmental Activities Internal- Service Fund
	Water	Wastewater	Totals	
<b>OPERATING REVENUES</b>				
Sales of water	\$ 2,032,929	\$ -	\$ 2,032,929	\$ -
Service fees	-	1,864,076	1,864,076	186,808
Miscellaneous	57,207	75,561	132,768	59,621
<b>Total operating revenues</b>	<b>2,090,136</b>	<b>1,939,637</b>	<b>4,029,773</b>	<b>246,429</b>
<b>OPERATING EXPENSES</b>				
Maintenance and operations	1,343,503	751,625	2,095,128	160,796
Employee services	775,391	969,431	1,744,822	-
Interfund charges for services	82,500	82,500	165,000	-
Depreciation and amortization	404,618	637,262	1,041,880	190,827
<b>Total operating expenses</b>	<b>2,606,012</b>	<b>2,440,818</b>	<b>5,046,830</b>	<b>351,623</b>
<b>Operating income (loss)</b>	<b>(515,876)</b>	<b>(501,181)</b>	<b>(1,017,057)</b>	<b>(105,194)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Gain(Loss) on replacement of capital assets	-	-	-	(657)
Interest and investment revenue	-	4	4	3
Interest expense	(310,670)	(343,254)	(653,924)	(21,337)
<b>Net nonoperating revenues (expenses)</b>	<b>(310,670)</b>	<b>(343,250)</b>	<b>(653,920)</b>	<b>(21,991)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(826,546)</b>	<b>(844,431)</b>	<b>(1,670,977)</b>	<b>(127,185)</b>
<b>Contributions and transfers:</b>				
Capital contributions	839,153	113,035	952,188	-
Transfers out	(154,439)	(18,155)	(172,594)	(493,071)
Transfers in	-	1,526,463	1,526,463	144,410
<b>Net contributions and transfers</b>	<b>684,714</b>	<b>1,621,343</b>	<b>2,306,057</b>	<b>(348,661)</b>
<b>Change in net assets</b>	<b>(141,832)</b>	<b>776,912</b>	<b>635,080</b>	<b>(475,846)</b>
<b>Total net assets, July 1</b>	<b>8,204,128</b>	<b>5,289,389</b>	<b>13,493,517</b>	<b>920,727</b>
<b>Total net assets, June 30</b>	<b>\$ 8,062,296</b>	<b>\$ 6,066,301</b>	<b>\$ 14,128,597</b>	<b>\$ 444,881</b>

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Enterprise Funds			Governmental Activities- Internal Service Fund
	Water	Wastewater	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 2,029,690	\$ 1,860,042	\$ 3,889,732	\$ -
Payments to suppliers	(1,350,480)	(746,287)	(2,096,767)	(124,330)
Cash received from other funds for services	-	-	-	186,808
Payments to other funds for services	(82,500)	(82,500)	(165,000)	-
Payments to employees for services	(783,389)	(977,430)	(1,760,819)	-
Other operating receipts	57,207	75,561	132,768	64,530
Net cash provided by (used for) operating activities	(129,472)	129,386	(86)	127,008
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Advances from other funds	(47,000)	584,305	537,305	(204,263)
Advances to other funds	416,770	-	416,770	-
Transfers out to other funds	(18,154)	(18,155)	(36,309)	-
Transfers in from other funds	-	-	-	144,410
Net cash provided by noncapital financing activities	351,616	566,150	917,766	(59,853)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions and grants	724,551	10,751	735,302	-
Payments on long-term debt principal	(180,000)	(346,192)	(526,192)	(112,900)
Interest paid on long-term debt	(312,748)	(348,423)	(661,171)	(22,613)
Purchases of capital assets	(501,368)	(11,672)	(513,040)	(16,339)
Net cash provided by (used for) capital and related financing activities	(269,565)	(695,536)	(965,101)	(151,852)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest receipts	-	-	-	3
Net cash provided by investing activities	-	-	-	3
Net increase (decrease) in cash and cash equivalents	(47,421)	-	(47,421)	(84,694)
Balances-beginning of the year	143,833	-	143,833	186,594
Balances-end of the year	\$ 96,412	\$ -	\$ 96,412	\$ 101,900

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

Enterprise Funds
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	Water	Wastewater	Totals	Governmental Activities- Internal Service Fund
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (515,876)	\$ (501,181)	\$(1,017,057)	\$(105,194)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	404,618	637,262	1,041,880	190,827
Change in assets and liabilities:				
Decrease(increase) in deposits	-	-	-	29,742
Decrease(increase) in accounts receivable	(4,987)	(3,994)	(8,981)	4,909
Increase(decrease) in other liabilities	(6,250)	(7,999)	(14,249)	
Increase(decrease) in accounts payable	(6,977)	5,298	(1,679)	5,665
(Increase) decrease in inventory	-	-	-	1,059
 Net cash provided by (used for) operating activities	 \$ (129,472)	 \$ 129,386	 \$ (86)	 \$ 127,008

**Noncash capital financing activities:**

None:

See accompanying notes to the basic financial statements

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Calistoga is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

The Calistoga Public Facilities Financing Corporation is a legally separate entity for which the City is financially accountable and it is governed by the elected City Council. The Corporation was formed to provide a method of financing public improvements. The financial activities of the Corporation are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *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 demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Property taxes, sales taxes, transient occupancy taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *HOME Grant and CDBG Open Grant Funds* accounts for resources used for various programs funded partially or entirely by federal grant monies. The *Capital Lease Projects Fund* is used to account for the proceeds from a commercial lease arrangement used to obtain financing for pool, public works, fire station, and other recreational facilities. The *Community Pool Fund* is used to account for donations from the general public restricted for construction of the community swimming pool facility.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system. The *wastewater fund* accounts for the operation of the City's wastewater treatment plant and collection facilities.

Additionally, the City reports the following fund type:

The internal service fund is used to account for the City's general operating equipment and related services provided to other City departments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in 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 this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, time deposits, savings and demand accounts. Additional types of investments including mutual and money market funds are also authorized by long-term debt financing agreements and indentures. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Long-term notes receivable are reported as assets in the governmental funds despite their focus on current financial resources, but they are offset by deferred revenue amounts in the governmental funds until such a time that collections on the notes are realized by the funds.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of July 1 on property values assessed as of the prior January 1. State statutes provide that the property tax rate be limited generally to one percent of assessed value, be levied by only the County, and be shared by applicable jurisdictions. The County of Napa collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

**3. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000(\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003 at the date these new financial reporting standards were implemented; and the City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure-Utility	50
Vehicles and equipment	5 – 10

Intangible type assets such as water rights are amortized to expense over the estimated term of the contractual arrangement underlying such rights using a straight-line amortization periods of 20 and 50 years.

**5. Compensated Absences and Other Post Employment Benefits**

It is the government's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City accrues each year as a liability in the government-wide financial statements the amount of the difference, if any, between the actuarially determined annual required contribution (ARC) to its OPEB Plan and the amounts actually contributed by the City for each fiscal year.

**6. Long-term Obligations**

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

**7. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**8. Comparative Data**

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

**2. Reconciliation of Government-wide and Fund Financial Statements**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 11,331,934 difference are as follows:

Capital assets	\$ 14,701,493
Less: Accumulated depreciation	<u>(3,369,559)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 11,331,934</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$ 5,793,340 difference are as follows:

Long-Term Debt Obligations and Related Interest:	
Capital lease obligation	\$ (628,941)
Accrued interest	(109,630)
Capital lease obligation	(4,674,000)
Capitalized debt issuance costs	20,448
Claims and settlements	(54,592)
Compensated absences	<u>(346,625)</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ ( 5,793,340)</u>

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 1,706,389 difference and other significant components of the difference are as follows:

Capital outlay, capitalized	\$ 1,157,291
Depreciation expense	(357,991)
Repayment of long-term debt principal	354,934
Internal service fund income	(475,846)
Other post employment benefit expense	(134,000)
Long-term loans made and deferred	1,242,536
Other items	<u>(80,535)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,706,389</u>

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**3. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds and proprietary funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds. The expenditures budgets exclusive of fund transfers were exceeded by the HOME Grant fund by \$1,246,643, CDBG Loan repayment fund by \$114,663, Asset forfeiture fund by \$2,700, and police grant fund by \$3,442, tree mitigation fund by \$4,200, and debt service fund by \$498,906. These over expenditures were funded by available resources.

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Deposits and investments at June 30, 2010 consisted of the following:

Demand deposits: (Time deposits and book bank balances)	\$ 525,565
Pooled investments	1,176,729
Investments with trustees	<u>2,375,022</u>
 Total deposits and investments	 <u>\$ 4,077,316</u>

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2010, \$555,487 of the City's bank balances of \$ 805,487 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent But not in the City's name:	<u>\$ 555,487</u>
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Investments - At June 30, 2010, the City had the following investments.

Investment	Average Maturity	Fair Value
State Investment Pool (LAIF)	203 days	\$ 1,176,729
Goldman Sachs Fin SQ Government Fund	14 days	2,374,698
Blackrock Institutional Treasury Fund	14 days	<u>324</u>
		<u>\$ 3,551,751</u>

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of five years or less at the time of purchase as prescribed in the California Government Code.

**Credit Risk** - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investments in mutual funds was rated Aaa and the State Investment Pool is unrated.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in mutual funds and external investment pools are not subject to custodial credit risk because the City's investment is not evidenced by specific securities.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**B. Receivables**

Receivables as of year-end for the government's individual major and non-major funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows

	General Fund	CDBG Open and HOME Grant	Nonmajor Funds & IS Fund	Total Governmental	Water	Wastewater
Accounts	\$ 89,364	\$ -	\$ 7,455	\$ 96,819	\$ 335,098	\$ 375,460
Taxes	770,986	-	-	770,986	-	-
Interest	1,629	-	-	1,629	-	-
Governments	31,125	25,000	28,701	84,826	246,000	-
Special assessments	-	-	-	-	-	-
Notes	-	4,299,154	824,609	5,123,763	-	-
<b>Totals</b>	<b>\$ 893,104</b>	<b>\$4,324,154</b>	<b>\$ 860,765</b>	<b>\$ 6,078,023</b>	<b>\$ 581,098</b>	<b>\$ 375,460</b>

The notes receivable of \$5,123,763 consists of housing rehabilitation loans of \$233,610 bearing interest at rates of 3 to 6 percent and repayable in monthly installments, other loans of \$590,999 including one loan for \$250,000 plus accrued and unpaid interest for the development of low to moderate income apartments, maturing in 2023 and repayable out of residual receipts, and \$1,250,586 in first-time homebuyer assistance loans secured by 4<sup>th</sup> deeds of trust and repayable in 55 years or under certain conditions including sale of the housing unit.

In addition, the total notes receivable also includes \$3,048,568 of drawn downs on a loan made from the proceeds of a HOME grant funded by a federal grant passed through the State of California. The loan bears interest at 3 percent per annum, matures in 55 years, is secured by a deed of trust on an affordable housing multi-family complex. The loan is repayable starting the first fiscal year following the first year of the project's operations from and to the extent of available cash flows as defined in the agreement.

**C. Interfund Transfers, receivables and payables**

1. The composition of interfund transfers of June 30, 2010, is as follows:

Transfers In:	General Fund	Non-Major Funds	Wastewater	Equipment Internal Service	Total Transfers Out
<b>Transfers Out:</b>					
General fund	\$ -	\$ -	\$ 897,107	\$ -	\$ 897,107
Water/wastewater	-	-	136,285	36,309	172,594
Capital lease	677,640	-	-	-	677,640
Internal service	-	-	493,071	-	493,071
Nonmajor funds	71,965	502,113	-	108,101	682,179
HOME fund	25,041	-	-	-	25,041
<b>Totals</b>	<b>\$ 774,646</b>	<b>\$ 502,113</b>	<b>\$ 1,526,463</b>	<b>\$ 144,410</b>	<b>\$ 2,947,632</b>

The \$677,640 transfer out of the capital lease fund was made to reimburse the general fund for the community pool and other capital costs. The \$502,113 transfer was made to fund debt service costs for governmental activities debt and most of the other transfers out of the nonmajor funds were made to reimburse the general fund for street and public safety costs.

The \$1,526,463 transfers into the wastewater fund were made as a result of the City's evaluation of the ability of the wastewater fund to repay interfund advances due other funds within a reasonable period of time. As a result of this process, the City determined that the advances receivable in the general fund, water fund and internal service fund should be written off as transfers out to the wastewater enterprise fund.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

2. The composition of interfund balances was:

Receivable Fund	Payable Fund	Asset	Liability
General fund	HOME grant	\$ 25,041	\$ -
General fund	Capital lease fund	215,968	-
		241,009	-
Internal service fund	Wastewater enterprise	3,000	-
	Wastewater	-	3,000
	HOME Grant	-	25,041
	Capital lease fund	-	215,968
Totals		<u>\$ 244,009</u>	<u>\$ 244,009</u>

The interfund advances were made for cash flow purposes.

**D. Capital Assets**

Capital asset activity relating to governmental activities for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 1,964,744	\$ -	\$ -	\$ 1,964,744
Construction in progress	382,016	1,144,912	(281,292)	1,245,636
Total capital assets, not being depreciated	<u>2,346,760</u>	<u>1,144,912</u>	<u>(281,292)</u>	<u>3,210,380</u>
Capital assets, being depreciated:				
Buildings	1,619,113	85,755	-	1,704,868
Machinery and equipment	1,467,463	17,174	(538,931)	945,706
Equipment- internal service fund	2,961,417	16,340	(194,790)	2,782,967
Improvements	8,649,805	190,734	-	8,840,539
Total capital assets being depreciated	<u>14,697,798</u>	<u>310,003</u>	<u>(733,721)</u>	<u>14,274,080</u>
Less accumulated depreciation for:				
Buildings	(1,151,088)	(44,570)	-	(1,195,658)
Machinery and equipment	(1,229,023)	(38,154)	534,220	(732,957)
Equipment-internal service	(2,019,873)	(190,827)	194,132	(2,016,568)
Improvements	(1,165,675)	(275,269)	-	(1,440,944)
Total accumulated depreciation	<u>(5,565,659)</u>	<u>(548,820)</u>	<u>728,352</u>	<u>(5,386,127)</u>
Total capital assets, being depreciated, net	<u>9,132,139</u>	<u>(238,817)</u>	<u>(5,369)</u>	<u>8,887,953</u>
Governmental activities capital assets, net	<u>\$11,478,899</u>	<u>\$ 906,095</u>	<u>\$ (286,661)</u>	<u>\$12,098,333</u>

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets**

Capital asset activity relating to business-type activities for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 2,802,838	\$ -	\$ -	\$ 2,802,838
Construction in progress	440,998	82,312		523,310
Total capital assets, not being depreciated	<u>3,243,836</u>	<u>82,312</u>	<u>-</u>	<u>3,326,148</u>
Capital assets, being depreciated:				
Wastewater collection and treatment	19,668,057	-	-	19,668,057
Water rights	1,589,875	-	-	1,589,875
Water treatment and distribution system	14,831,096	-	-	14,831,096
Equipment-wastewater	605,382	7,550	-	612,932
Equipment-water	990,784	16,003	(8,080)	998,707
Total capital assets being depreciated	<u>37,685,194</u>	<u>23,553</u>	<u>(8,080)</u>	<u>37,700,667</u>
Less accumulated depreciation and amortization for:				
Wastewater collection and treatment system	(5,104,568)	(628,394)	-	(5,732,962)
Water rights	(279,201)	(48,990)		(328,191)
Water treatment and distribution system	(4,975,646)	(341,692)	-	(5,317,338)
Total accumulated depreciation	<u>(10,359,415)</u>	<u>(1,019,076)</u>	<u>-</u>	<u>(11,378,491)</u>
Total capital assets, being depreciated, net	<u>27,325,779</u>	<u>(995,523)</u>	<u>(8,080)</u>	<u>26,322,176</u>
Business-type activities capital assets, net	<u>\$ 30,569,615</u>	<u>\$ (913,211)</u>	<u>\$ (8,080)</u>	<u>\$ 29,648,324</u>

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**D. Capital Assets (Continued)**

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental activities:</b>	
General government	\$ 23,943
Public safety	52,738
Community services	13,665
Recreation services	167,808
Public works	99,837
Capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	190,827
<b>Total depreciation expense-governmental activities</b>	<b>\$ 548,818</b>
 <b>Business-type activities:</b>	
Water	\$ 341,692
Wastewater	628,394
<b>Total depreciation expense-governmental activities</b>	<b>\$ 970,086</b>

**E. Capital Leases – Governmental Type Activities including Internal Service**

The City entered into a lease agreement in an original amount of \$2,253,011 as lessee for financing the advance refunding in fiscal 2003 of another lease arrangement and note payable relating to the Police Facility and Logvy Community Park land acquisition. The original lease agreement qualified as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception dates. The assets have been capitalized as general capital assets and the related accumulated depreciation is recorded in the statement of net assets. The lease is payable to Zions First National Bank, bears interest at 4.65 percent per annum, and is payable in semi-annual installments of \$134,521 each October 1 and April 1 through 2012. The City has not pledged any specific revenue source for repayment of the lease, but has agreed to appropriate sufficient resources from any available source to make the repayments.

In fiscal 2008, the City entered into a capital lease arrangement in an original amount of \$4,674,000 with West America Bank for the purpose of obtaining financing to make improvements to pool, recreation, fire, and public works facilities. The lease is payable in semi annual installments of between \$115,681 and \$213,154 commencing August 1, 2008 and continuing through February 1, 2028. The lease bears interest at 4.95 percent per annum. The leasing arrangement included a lease between the City of Calistoga and the Calistoga Public Facilities Corporation; a blended component unit of the City. The lease receivable and payable between the City and its component unit financing corporation has been eliminated from these financial statements. The city has not pledged any specific revenue source for repayment of the lease, but has agreed to appropriate sufficient resources from any source of legally available funds to make the payments.

The City entered into two lease agreements with an original amount of \$741,900 for financing the purchase of computer equipment, vehicles, a water tender truck and a fire engine. The assets and unspent lease proceeds have been capitalized as deposit in the internal service fund as the proceeds are in an escrow funding account. The leases are payable to Sun Trust Leasing, bear interest at 4.35 percent per annum, and is payable in semi-annual variable installments each February 28 and August 28 through 2018. The City has not pledged any specific revenue source as security for repayment, but has agreed to make sufficient resources available from any legal source for the repayments.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**E. Capital Leases – Governmental Type Activities including Internal Service (Continued)**

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2009 were as follows:

Fiscal Year Ending June 30	Zions First National Bank Lease	Sun Trust Leasing	West America Bank Lease
2011	\$ 269,043	\$ 71,174	\$ 342,644
2012	269,043	71,174	342,644
2013	134,521	58,950	342,644
2014	-	58,950	342,644
2015	-	58,950	342,644
2016-2020	-	176,850	2,131,535
2021-2025	-	-	2,131,535
2026-2028	-	-	1,278,921
Total minimum lease payments	672,607	496,048	7,255,211
Less amounts representing interest interest	(43,666)	(78,163)	(2,581,211)
Net present value of minimum lease payments	<u>\$ 628,941</u>	<u>\$ 417,885</u>	<u>\$ 4,674,000</u>

**F. Long-Term Debt**

**Water Enterprise**

*Installment Agreement Payable*

The City entered into an installment purchase agreement, dated November 8, 2005 between the City and the California Statewide Communities Development Authority (CSCDA) wherein the Authority sold a pool of water and wastewater revenue bonds. A portion of the proceeds of the Authority's revenue bonds, in an original amount of \$5,290,000 were provided to the City to finance expansion of the City's water system and to advance refund the City's outstanding water revenue bonds. In exchange, the City agreed to purchase the water system improvements from the Authority pursuant to the installment agreement.

The City's obligations under the agreement are secured by a first pledge and lien on the water system revenues. The City is obligated to fix, prescribe and collect system revenues in amounts sufficient to enable the City to pay all current operations and maintenance costs of the system, make all required payments on any parity debt and the installment payments, fund any reserve account requirements, and pay all other charges applicable to the system. The City is also required to fix rates such that system net revenues in any one year (subject to certain adjustments) are equal to 120 percent of the annual debt service of the system. In lieu of a monetary reserve, a reserve insurance policy was issued in an initial amount of \$364,379. The agreement bears interest at rates of from 2.75 to 4.625 percent per annum. Annual principal and interest on the agreement are expected to require less than 77 percent of system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 7,395,503. Principal and interest paid for the current fiscal year and total system net revenues as defined were \$358,897 and \$727,895 (inclusive of capital contributions of \$839,153) respectively.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**F. Long-Term Debt (Continued)**

**Water Enterprise (Continued)**

*Installment Agreement Payable (Continued)*

Future debt service on the agreement is:

Fiscal Year	Principal	Interest	Total
2011	\$ 155,000	\$ 199,150	\$ 354,150
2012	165,000	194,006	359,006
2013	170,000	188,393	358,393
2014	175,000	182,440	357,440
2015	185,000	176,002	361,002
2016-2020	1,005,000	767,840	1,772,840
2021-2025	1,245,000	528,183	1,773,183
2026-2030	550,000	306,026	856,026
2031-2035	705,000	152,970	857,970
2036-2037	330,000	15,493	345,493
<b>Totals</b>	<b>\$ 4,685,000</b>	<b>\$2,710,503</b>	<b>\$7,395,503</b>

*Certificates of Participation*

In March 2008, the City entered into an installment purchase agreement with the Calistoga Public Facilities Financing Corporation for \$2,511,170 wherein the City agreed to make installment payments to the Corporation in exchange for the Corporation obtaining financing to fund water treatment plant improvements by issuing Certificates of Participation.

The United States Department of Agriculture (USDA) provided a \$2,511,170 loan to the Corporation to provide financing for the subject improvements and for the repayment to the City of construction costs and other improvements made by the City's to its water enterprise. The USDA provided the loan by purchasing the Certificates of Participation referred to above. The installment agreement receivable and payable between the Corporation and the City has been eliminated from these financial statements as the Corporation is a blended component unit of the City, and the \$2,511,170 is reported by the City as long-term debt (the certificates of participation) of the City's water enterprise fund.

Under the arrangements, the City has pledged net revenues of the water enterprise as security for the payment of the certificates of participation. The City is also obligated to fund a reserve fund in an amount equal to \$134,619 with funding of this reserve to be made over a ten year period. The certificates bear interest at 4.375 percent and principal/interest payments are due each March 1 and September 1 through March 1, 2048.

Annual principal and interest on the agreement are expected to require less than 27 percent of system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 5,094,978. Principal and interest paid for the current fiscal year and total system net revenues as defined were \$133,850 and \$727,895 (inclusive of capital contributions of \$839,153) respectively. Future debt service requirements are:



**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**F.Long-Term Debt (Continued)**

**Water Enterprise (Continued)**

*Certificates of Participation (Continued)*

Fiscal Year	Principal	Interest	Total
2011	\$ 26,000	\$ 107,756	\$ 133,756
2012	28,000	106,618	134,618
2013	29,000	105,392	134,392
2014	30,000	104,126	134,126
2015	31,000	102,812	133,812
2016-2020	179,000	492,272	671,272
2021-2025	220,000	449,748	669,748
2026-2030	273,000	397,115	670,115
2031-2035	340,000	331,840	671,840
2036-2040	419,000	250,769	669,769
2041-2045	519,000	150,804	669,804
2046-2048	369,000	32,726	401,726
<b>Totals</b>	<b>\$ 2,463,000</b>	<b>\$ 2,631,978</b>	<b>\$ 5,094,978</b>

***Wastewater Enterprise - Installment Agreement Payable***

The City entered into an installment purchase agreement, dated August 1, 2001 between the City and the California Statewide Communities Development Authority (CSCDA) wherein the Authority sold a pool of water and wastewater revenue bonds. A portion of the proceeds of the Authority's revenue bonds, in an original amount of \$3.5 million were provided to the City to finance expansion of the City's wastewater treatment plant and other wastewater improvements. In exchange, the City agreed to purchase the plant expansion improvements from the Authority pursuant to the installment agreement. The City's obligations under the agreement are secured by a first pledge and lien on the wastewater system revenues. The City is obligated to fix, prescribe and collect wastewater system revenues in amounts sufficient to enable the City to pay all current operations and maintenance costs of the system, make all required payments on any parity debt and the installment payments, fund any reserve account requirements, and pay all other charges applicable to the system. The City is also required to fix rates such that system net revenues in any one year (subject to certain adjustments) are equal to 120 percent of the annual debt service of the system. In lieu of a monetary reserve, a reserve insurance policy was issued in an initial amount of \$227,978. The agreement bears interest at rates of from 3.25 to 5.125 percent per annum. Future debt service on the agreement is:

Fiscal Year	Principal	Interest	Total
2011	\$ 80,000	\$ 144,576	\$ 224,576
2012	85,000	141,233	226,233
2013	85,000	137,664	222,664
2014	90,000	133,813	223,813
2015	95,000	129,602	224,602
2016-2020	550,000	572,896	1,122,896
2021-2025	690,000	416,508	1,106,508
2026-2030	885,000	219,875	1,104,875
2031-2032	420,000	21,250	441,250
<b>Totals</b>	<b>\$ 2,980,000</b>	<b>\$ 1,917,417</b>	<b>\$ 4,897,417</b>

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**F. Long-Term Debt (Continued)**

***Wastewater Enterprise (Continued)***

*Installment Agreement Payable (Continued)*

Annual principal and interest on the agreement are expected to require less than 90 percent of system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 4,897,417. Principal and interest paid for the current fiscal year and total system net revenues as defined were \$222,601 and \$249,120 (inclusive of \$113,035 in capital contributions), respectively.

*State of California Revolving Fund Loan*

The City obtained a \$5,609,999 loan from the State of California Department of Water Resources under the State Revolving Loan Program for the purpose of obtaining financing to construction the City's wastewater treatment plant. The loan bears interest at 2.6 percent and is secured by a pledge of the City to maintain dedicated sources of revenue sufficient in amounts to provide for repayment of the loan. Principal and interest on the loan is payable in annual installments due each October 30 through 2023. Future debt service based upon the final principal loan balance of is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 253,824	\$ 109,767	\$ 363,591
2012	260,423	103,168	363,591
2013	267,194	96,397	363,591
2014	274,141	89,450	363,591
2015	281,269	82,322	363,591
2016-2020	1,519,917	298,038	1,817,955
2021-2024	1,365,035	89,886	1,454,921
<b>Totals</b>	<b>\$ 4,221,803</b>	<b>\$ 869,028</b>	<b>\$ 5,090,831</b>

Annual principal and interest on the agreement are expected to require 146 percent of current system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 5,090,831. Principal and interest paid for the current fiscal year and total system net revenues as defined were 363,591 and \$249,120, respectively

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**F. Long-Term Debt (Continued)**

***Wastewater Enterprise (Continued)***

*Certificates of Participation*

In May 2005, the City entered into an installment purchase agreement with the Calistoga Public Facilities Financing Corporation for \$2,028,500 wherein the City agreed to make installment payments to the Corporation in exchange for the Corporation obtaining financing to fund wastewater treatment plant improvements by issuing Certificates of Participation.

The United States Department of Agriculture (USDA) provided a \$2,028,500 loan to the Corporation to provide financing for the subject improvements and for the repayment by the City of a \$1,650,000 interim financing construction note and other improvements to the City's wastewater enterprise. The USDA provided the loan by purchasing the Certificates of Participation referred to above. The installment agreement receivable and payable between the Corporation and the City has been eliminated from these financial statements as the Corporation is a blended component unit of the City, and the \$2,028,500 is reported by the City as long-term debt (the certificates of participation) of the City's wastewater enterprise fund.

Under the arrangements, the City has pledged net revenues of the wastewater enterprise as security for the payment of the certificates of participation. The City is also obligated to fund a reserve fund in an amount equal to \$105,837 with funding of this reserve to be made over a ten year period. The certificates bear interest at 4.25 percent and principal/interest payments are due each November 1 and May 1 through May 1, 2045. Future debt service on the certificates is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 24,800	\$ 81,558	\$ 106,358
2012	25,700	80,724	106,424
2013	27,000	79,411	106,411
2014	28,100	78,263	106,363
2015	29,300	77,069	106,369
2016-2020	165,900	366,007	531,907
2021-2025	204,500	327,374	531,874
2026-2030	251,700	280,063	531,763
2031-2035	310,100	221,796	531,896
2036-2040	381,700	150,099	531,799
2041-2045	470,200	61,627	531,827
Totals	<u>\$ 1,919,000</u>	<u>\$ 1,803,991</u>	<u>\$ 3,722,991</u>

Annual principal and interest on the agreement are expected to require 43 percent of current system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 3,722,991. Principal and interest paid for the current fiscal year and total system net revenues as defined were 106,369 and \$249,129 respectively

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**4. Detailed Notes on All Funds (Continued)**

**F. Long-Term Debt (Continued)**

*Changes in Long-term liabilities*

Long-term debt activity for the 2010 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental</b>					
<b>Activities:</b>					
Capital lease obligation	\$ 861,326	\$ -	\$ 232,385	\$ 628,941	\$ 243,103
Capital lease obligation	4,674,000	-	-	4,674,000	112,657
Compensated absences	339,534	128,000	114,851	352,683	224,683
Capital lease -internal service	530,785	-	112,900	417,885	53,573
Claims and settlements	134,924	42,217	122,549	54,592	54,592
<b>Total</b>	<b>\$ 6,540,569</b>	<b>\$ 170,217</b>	<b>\$ 582,685</b>	<b>\$ 6,128,101</b>	<b>\$ 688,608</b>
<b>Business-type</b>					
<b>Activities:</b>					
Installment agreement-water	\$ 4,840,000	\$ -	\$ 155,000	\$ 4,685,000	\$ 155,000
Certificates participation - water	2,488,000	-	25,000	2,463,000	26,000
Installment agreement	3,055,000	-	75,000	2,980,000	80,000
Certificates of participation	1,942,800	-	23,800	1,919,000	24,800
State Revolving Fund Loan	4,469,195	-	247,392	4,221,803	253,824
Compensated Absences	113,447	90,000	105,997	97,450	77,450
<b>Total</b>	<b>\$ 16,908,442</b>	<b>\$ 90,000</b>	<b>\$ 632,189</b>	<b>\$ 16,366,253</b>	<b>\$ 617,074</b>

**5. Other Information**

**A. 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 insurance. The City participates as a member of the Public Agency Risk Sharing Authority of California (PARSAC). The Authority is a joint powers agency providing joint protection programs for public entities.

The Authority provides general liability, workers compensation and property insurance coverage to member entities. Under the liability program, the City has a \$10,000 retention limit similar to a deductible with the Authority being responsible for losses above that amount up to \$1 million. The Authority carries purchased excess insurance above that amount to cover losses up to \$25 million. The City has a \$25,000 deductible for workers compensation claims, and PARSAC covers workers compensation claims up to the first \$475,000 per claim and carries excess commercial insurance above that amount to cover losses up to \$50 million. Property coverage is commercial insurance jointly purchased with other public entities throughout the State. The commercial coverage is one billion for the collective members with various sub-limits by type of coverage and property. The City's obligation is to pay annual premiums billed by the Authority. The PARSAC periodically may make retrospective premium adjustments and the City would be required to pay its prorata share of such adjustments.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**5. Other Information (Continued)**

**A. Risk Management (Continued)**

Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended <u>6/30/2010</u>	Year Ended <u>6/30/2009</u>
Unpaid claims, beginning of fiscal year	\$ 134,924	\$ 311,725
Incurred claims (including IBNRs)	42,217	-
Claim payments	<u>(122,549)</u>	<u>(176,801)</u>
Unpaid claims, end of fiscal year	<u>\$ 54,592</u>	<u>\$ 134,924</u>

**B. Contingencies and Commitments**

*Litigation.* The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

*Grants and allocations.* Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

*Contingencies.* The City is involved in a contract complaint in arbitration relating to a public works construction project wherein the plaintiff is seeking damages in excess of \$500,000. The City believes that it has meritorious defenses to the complaint. The ultimate outcome of this dispute is not presently determinable, and accordingly, any liability that might result from its settlement is undeterminable at the present time.

**C. Contractual Settlements**

In another matter, the City has recognized in its general fund, as another financing source, an estimated \$720,154 for contract retentions and liquidated damages related to the construction contract for the City's new community swimming pool. The City believes, that as a result of mediation and other actions, the City will ultimately not pay the amounts retained for retentions and damages.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**5. Other Information (Continued)**

**D. Public Employees Retirement System**

*Plan Description.* The City of Calistoga contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. The PERS issues publicly available financial reports which include the financial statements and required supplementary information for the PERS. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

*Funding Policy and Annual Pension Cost.* The contribution requirements of plan members and the Town are established by and may be amended by PERS. Regular plan members are required to contribute 7.0 percent of their annual covered salary and safety members are required to contribute 9.0 percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate for regular employees was 16.158 percent of covered payroll and 27.487 percent of covered payroll for safety employees. The City's annual pension cost for the most recent three year period and for each plan is as follows:

**Three-year Trend of Information**

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>				
	6/30/08	\$ 428,401	100%	\$ -
	6/30/09	\$ 463,350	100%	\$ -
	6/30/10	\$ 440,061	100%	\$ -
<i>Safety employees</i>				
	6/30/08	\$ 307,637	100%	\$ -
	6/30/09	\$ 338,283	100%	\$ -
	6/30/10	\$ 393,327	100%	\$ -

**E. Restricted Net Assets and Designated Fund Balances**

The \$ 6,272,999 restricted amount in the governmental activities statement of net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments. Of the \$6,272,999 for governmental activities, \$5,799,069 is restricted for housing and community development, \$351,060 is restricted for public safety, and \$122,870 is for streets and other purposes

Portions of unreserved fund balance in the general fund financial statements totaling \$933,004 are designated to indicate tentative plans for financial resource utilization in future periods, such as for general contingencies, emergencies, infrastructure improvements open space and other matters. Such plans are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances also consisted of the \$ 2,158,730 in the capital lease projects fund to be used for future capital projects.

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**5. Other Information (Continued)**

**F. Proposition 1A Receivable**

Under Proposition 1A and as part of the 2009-2010 State budget package passed by the California legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenues, including those property taxes associated with the in lieu motor vehicle license fee, the triple flip sales tax, and supplemental property taxes apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of the initial borrowing, the California legislature may consider only one additional borrowing with in a ten year period. The amount of the borrowing pertaining to the City was \$140,252.

Authorized with the 2009-2010 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority, a joint powers authority sponsored by the California Association of Counties and League of California Cities to enable local governments to sell their Proposition 1A receivables to the Authority. Under the program, the Authority simultaneously purchases the Proposition 1A receivables and issues bonds (Prop 1A bonds) to provide local agencies with cash in two equal installments on January 15, 2010 and May 2, 2010. The purchase price paid to local agencies equaled 100% of the amount of the property tax allocation reduction. All transaction costs of issuance and interest were paid by the State of California. Participating agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the program and accordingly, property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and as a result, no gain or loss was reported.

**G. Post Employment Benefits Other than Pensions**

*Plan Description.* The City administers the city's retired employees health care plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired City employees and their beneficiaries. The city's plan is affiliated with the State of California PERS in so far as the City's health insurance premium payments are paid to the PERS. The PERS through an aggregation of single employer plans pools administrative functions in regard to purchases of commercial health care policies and coverages. City regulations and resolutions assign authority to establish and amend plan provisions to the City. Separate financial statements of the Plan are not issued by the City as a separate OPEB Trust or equivalent arrangement has not been established by the City.

*Funding Policy.* The contribution requirements of the Plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay-as-you-go financing requirement, with additional amounts to prefund benefits as determined annually by the City Council. For the fiscal year ended June 30, 2010, the City contributed \$ 9,000 for current year premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts of the total premiums.

*Annual OPEB Costs and Net OPEB Obligation.* The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows components of the City's annual OPEB cost for the year, the amounts actually contributed to the Plan, and changes in the City's net OPEB obligation to the Plan:

**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**5. Other Information (Continued)**

**G. Post Employment Benefits Other Than Pensions (Continued)**

Annual required contribution (ARC)	\$ 143,000	
Interest on net OPEB obligation	-	
Adjustments to annual required contribution	-	
Annual OPEB expense	143,000	
Contributions made	(9,000)	
Change in net OPEB Obligation	134,000	
Net OPEB Obligation, beginning of year	-	
Net OPEB Obligation, end of year	\$ 134,000	

*Funding Status and Funding Progress.* As of June 30, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$963,000 and the actuarial value of plan assets was zero, resulting in the unfunded actuarial liability (UAAL) of \$963,000. The covered payroll of active employees covered by the Plan was \$3,714,000 and the ratio of the UAAL to the covered payroll was 25.9 percent.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Methods and Assumptions.* Projection of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25 percent investment rate of return which is a blended rate of the expected long-term investment returns on plan assets and the employer's own investments calculated based upon the funded level of the plan at the valuation date, and on the annual health care cost trend of 9 percent decreasing to 5 percent in 2021. There were no plan assets to value at the latest valuation date. The UAAL is being amortized as a level percentage of payroll over 30 years, the remaining amortization period at June 30, 2010.



**CITY OF CALISTOGA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**5. Other Information (Continued)**

**H Changes in Accounting Principles**

*Other Post Employment Benefits (OPEB)*

As required by Governmental Accounting Standards Board Statement 45, titled Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions, the City in fiscal 2010, implemented the provisions that require reporting financial information about retiree medical benefit plans, the employers annual required contribution, contributions made and other information. Implementation of this reporting standard had no effect on the beginning net assets of the City because the city reported a zero net other post employment benefit obligation at the beginning of the 2010 fiscal year. The reporting standard did result in the City reporting an annual OPEB expense of \$143,000 in its 2010 Statement of Activities/Changes in Net Assets.

*Intangible Assets*

As required by Governmental Accounting Standards Board Statement Number 51, Accounting and Financial Reporting for Intangible Assets, the City in fiscal 2010 began amortizing the costs of its water rights over the estimated term of the contractual arrangement underlying such rights. The effect of this change was to restate the accumulated and previously unrecorded accumulated amortization on water rights carried as capital assets in the city's water enterprise fund. The change to record such amortization had the effect of reducing beginning of year net assets in the water enterprise fund and the beginning net assets of the business type activities by \$279,201.