

City of Calistoga California



**Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2010**

CITY OF CALISTGOA, CALIFORNIA
Comprehensive Annual Financial Report
For the
Fiscal Year Ended June 30, 2010

Prepared by the Administrative Services Department

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INTRODUCTORY SECTION

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CITY OF CALISTOGA

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March 30, 2011

To Citizens of the City of Calistoga and

The Honorable Mayor, Members of the City Council

We hereby submit the Comprehensive Annual Financial Report of the City of Calistoga for the fiscal year ended June 30, 2010. The fiscal year covers financial transactions from July 1, 2009 to June 30, 2010 on a modified or full accrual basis, depending on the fund type. The City follows a policy of preparing a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America after the end of each fiscal year. An independent licensed certified public accounting firm audits these financial statements.

City management assumes full responsibility for the completeness and reliability of all of the information presented in this report. We have established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to provide sufficient reliable information for the City of Calistoga's financial statements in conformity with U.S. generally accepted accounting principles. The cost of internal controls should not outweigh their benefits and the internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Auditor's Report Summary

Terry E. Krieg CPA, a licensed certified public accounting firm, has audited the City of Calistoga's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Calistoga for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Mr. Krieg has concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Calistoga's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with U.S. generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

Comprehensive Annual Financial Report (CAFR)

This CAFR contains financial information and data using the new financial reporting format established for governments by the Governmental Accounting Standards Board (GASB). The GASB sets accounting and financial reporting standards for governments in the United States of America. The financial reporting standards require that management provide a narrative

introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Calistoga's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY AND ITS OPERATIONS

The City of Calistoga was incorporated in 1886 as a general law city in the County of Napa, State of California. The City is established as a Council-Manager form of local government and governed by an elected Mayor and a four member City Council. The Council is responsible, among other matters, for passing ordinances, adopting the City budget, appointing committees, and hiring the City Manager and City Attorney. The Council is elected on a non-partisan basis. Council members serve four year staggered terms, with two members elected every two years. The Mayor is elected to serve a two-year term.

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the daily operations of the City, hiring Department Heads and for appointing other employees and otherwise managing daily operations of the City.

The City of Calistoga provides a full range of services including police and fire protection, planning and building inspections, parks and recreation facilities and services, construction and maintenance of streets, public buildings and other infrastructure facilities, cemetery, water production and distribution, and wastewater collection and treatment. The City Council also exercises oversight of Calistoga Public Facilities Corporation; a non-profit public benefit corporation for the financing of City facilities and equipment, and this component unit is included in the City's financial statements as part of the primary governmental reporting entity.

The City of Calistoga is located about 75 miles north of San Francisco in the northern part of Napa County. The City is approximately 2.6 square miles with an estimated population of 5,370 as of January 1, 2010. However, an additional surrounding population of 2,000 to 3,000 is considered part of the greater Calistoga community. The 2000 US Census reflects an ethnic diversity with 55% of the population white, 38% Hispanic and 7% other non-white. The median age was 38.1 years and almost 30% of the population is over 55 years. The median income was \$44,320 with an estimated 29% employed in management, professional or related occupations, 23% in services, 21% in sales or office and 27% in other occupations. An estimated 78% have a high school education and 29% have a bachelor's degree or higher. Of the 2,042 housing units an estimated 27%, or 555, are mobile homes. The City has a diverse population with income, housing and employment reflecting a tourist, wine producing and retirement community.

The Napa Valley is considered to be one of the world's premier grape growing and wine producing regions and draws thousands of tourists each year to the area. Samuel Brannan, a California pioneer and entrepreneur, founded the Calistoga community in 1860's, as a tourist health resort with the natural geothermal water in the area. The City's primary economic base is still tourism. The vineyards and commercial wineries, fine shops, cafes and restaurants, world famous mineral hot springs and tourist accommodations featuring mud baths and spa treatments and scenic valley mountains, all combine to make the City of Calistoga a place to visit for tourists from around the world. The mild climate and beauty of the area has also drawn retirees to four large mobile home parks in the City.

DISCUSSION OF FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the CAFR is perhaps best understood when it is considered in relationship to the City's specific environment and the City's plans for the future.

Local Economy

As discussed above, the City of Calistoga's local economy is primarily from the wine producing, agriculture, tourism and health services. The City has a stable assessed valuation base that provides growing property tax revenue. The taxable sales base is primarily centered on restaurants and other tourist related products. The 42 lodging facilities range from small bed and breakfasts inns to large resorts with geothermal spas and other health treatments. These lodging facilities generate the largest single source of annual revenue to the City from Transient Occupancy tax.

About 80% of the City's general fund revenues come from the local transient occupancy tax, sales tax, and property taxes.

Budget

The City's budget serves as the base for the City's financial planning and control systems. The fiscal year annual budget is reviewed and updated by City Council resolution each year. All departments of the City submit budget updates and requests to the City Manager each spring for the following two fiscal years. The Manager uses this information to update previously adopted budgets and develop proposed budgets. The Manager presents updates and proposed budgets to the City Council in May or June of each year. The Council holds public hearings on the updates and proposed budgets and then adopts an annual budget resolution. The budget is adopted by fund at the department and project levels. The Council periodically reviews during the fiscal year the City's actual financial activity in relationship to the original budget, and as necessary amends the original budget to reflect changing conditions.

Budget to actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The general fund's comparison, a major fund under the new reporting standards, is presented as required supplementary information in a separate section of this report immediately following the notes to the financial statements. For the City's other governmental-type funds a budget to actual comparison schedule is presented as optional information in the section of this report containing combining financial statements and individual fund schedules,

Long-Term Financial Planning

The City, in fiscal 2011, expects the local economy to continue to feel the impact of the downturn in the State and National economies. However, with the local growth limitations in the community, there will still be a small amount of residential and commercial development. It is expected that there will be nominal revenue growth from transient occupancy and sales taxes. Potential planned improvements and rehabilitation of existing lodging facilities and the addition of new facilities will likely be delayed due to the difficulty in obtaining commercial credit. The broad effects of the deepening recession on the national, state and Bay Area economy and unemployment have impacted the tourist activity in the Napa Valley which will weaken or reduce revenues to the City that are based on those sources. Property taxes will also continue to flatten or decrease slightly in 2011. While the subprime collapse had a very limited effect on property

values in the City in past years, there will likely be a weakening in annual growth projections due to the economic factors above and revaluations of properties by the Napa County Assessor. The City has a very stable property valuation base due the growth management in the General Plan and Growth Management program and the nature of the community housing stock and ownership. The longer term impact of the recession and the State and Federal stimulus programs on the City's revenues is difficult to gage at this time. However, even with the economic cautions, a conservative projection of slight growth in the primary General Fund revenue sources should be sufficient to fund the projected growth in general municipal operations.

The City has recently adopted updated water and wastewater user rates and connection fees. The City also will need to do a comprehensive review of all fees for services to insure recovery of the costs to provide the services to the users. The City needs to develop a comprehensive capital improvement plan (CIP) that identifies needed public improvements to support the community needs and projected growth identified in the adopted General Plan. To fund current and future capital improvements, the City will need to develop additional funding sources from grants, long term debt financing and development impact fees.

Staff Contributions

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and other departments. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the City Council and the Management staff for their continued support for maintaining the highest standards of professionalism in the management of the City of Calistoga's financial affairs.

Respectfully submitted,



Richard Spittler
City Manager



William Mushallo
Administrative Services Director/City Treasurer

**City of Calistoga, California
Principal City Officials
As of June 30, 2010**

Elected Officials

City Council

Jack Gingles
Michael Dunsford
Gary Kraus
Placido Garcia-Hernandes
Karen Slusser

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

Appointed Officials

City Management Staff

William Norton
Michelle Marchetta Kenyon
Jonathan Mills
Charlene Gallina
Steve Campbell
Susan Sneddon
William M. Mushallo
Daniel Takasugi, P.E.

Interim City Manager
City Attorney
Police Chief
Planning & Building Director
Fire Chief
City Clerk
Administrative Services Director/City Treasurer
City Engineer & Public Works Director

CITY OF CALLISTOGA ORGANIZATIONAL CHART

