

City of Calistoga California



**Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2011**

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
For the
Fiscal Year Ended June 30, 2011

Prepared By the Department of Administrative Services

INTRODUCTORY SECTION

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2011

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents	i
Letter of Transmittal	v
List of Principal Officials	ix
Organization chart	x
 FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	16
Statement of Net Assets- Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Proprietary	18
Statement of Cash Flows-Proprietary Funds	19
Statement of Fiduciary Net Assets	21
Notes to the Basic Financial Statements	22

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2011

Table of Contents

REQUIRED SUPPLEMENTAL INFORMATION SECTION

Budgetary Comparison Schedule - General Fund	44
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	45
Budgetary Comparison Schedule-HOME Grant Fund	46
Budgetary Comparison Schedule - CDBG Open Grants Fund	47
Schedule of Funding Progress - Other Post Employment Benefits (OPEB)	48

SUPPLEMENTAL SECTION

Combining Statements and Individual Fund Schedules-Nonmajor Funds:

Combining Balance Sheet Nonmajor Governmental Funds	49
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	51
Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budgetary Basis) Nonmajor Governmental Funds	
Gas Tax Fund	53
Parking Ordinance Fund	54
Public Safety Fund	55
CDBG Loan Repayment Fund	56
Palisades L&M Fund	57
Asset Forfeiture Fund	58
Affordable Housing Fund	59
Quality of Life Fund	60
Silverado L&M Fund	61
City Hall Donation Fund	62

**CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2011**

Table of Contents

SUPPLEMENTAL SECTION (CONTINUED)

Abandoned Vehicle Fund	63
Traffic Signal Fund	64
MTC Street Fund	65
Vamos Program Fund	66
Northwest Drainage Fund	67
Recreation Donation Fund	68
Police Donation Fund	69
Police Grant Fund	70
Tree Mitigation Fund	71
Fire Donation Fund	72
Mobile Home Park Fund	73
City Debt Service Fund	74
Capital Assets Used In Governmental Activities	
Comparative Schedule of General Capital Assets by Source	75
Schedule of Changes in General Capital Assets by Source	76
Schedule of General Capital Assets By Function and Activity	77
Schedule of Changes in General Capital Assets by Function and Activity	78

**CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2011**

Table of Contents

STATISTICAL SECTION	<u>Schedule</u>	<u>Page</u>
FINANCIAL TRENDS INFORMATION:		
Schedule of Net Assets by Component -Last Eight Fiscal Years	1	79
Schedule of Changes in Net Assets - Last Eight Fiscal Years	2	80
Schedule of Fund Balances All Governmental Funds - Last Eight Fiscal Years	3	83
Schedule of Revenues, Expenditures and Changes in Fund Balances and Debt Service Ratio -Last Eight Fiscal Years	4	84
REVENUE CAPACITY INFORMATION:		
Transient Occupancy Tax Revenue Base Data-Last Eight Fiscal Years	5	85
Principal Transient Occupancy Tax Payers-In Alphabetical Order-Last Eight Fiscal Years	6	86
DEBT CAPACITY INFORMATION		
Ratio of Outstanding Debt By Type-Last Eight Fiscal Years	7	87
Direct and Overlapping Governmental Activities Debt - Current Year	8	88
Legal Debt Margin - Last Eight Fiscal Years	9	89
DEMOGRAPHIC AND ECONOMIC INFORMATION		
Demographic and Economic Statistics - Last Ten Fiscal Years	10	90
Principal Employers - Current Fiscal Year	11	91
OPERATING INFORMATION		
Number of Full Time Equivalent City Employees - Last Eight Fiscal Years	12	92
Operating Indicators - Last Eight Fiscal Years	13	93
Capital Asset Statistics - Last Eight Fiscal Years	14	94

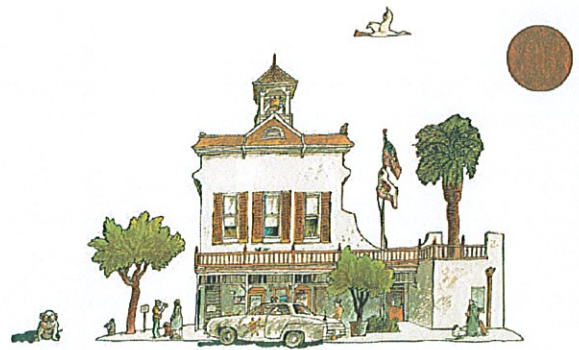
CITY OF CALISTOGA

1232 Washington Street • Calistoga, CA 94515

Telephone 707-942-2800

Fax 707-942-0732

April 17, 2012 www.ci.calistoga.ca.us



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, 2011. The fiscal year covers financial transactions from July 1, 2010 to June 30, 2011 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, 2011, 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 issued the accompanying financial statements under the assumption that the City's General Fund, and its Water and Wastewater Enterprise Funds will continue as going concerns. In the financial statements under Notes to the Basic Financial Statements Item 5-J the City's General Fund and its Water and Wastewater Enterprise Funds have suffered recurring losses from operations and, the General Fund has reported a zero available fund balance at year end while the water and wastewater operations have reported minimal year end cash balances, all of which collectively raise substantial doubt about their ability to continue as a going concern. Management's plans in regards to these matters are also described in Note Item 5-J to these financial statements as well as in this letter.

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, 2011, 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 5,155 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 2010 US Census reflects an ethnic diversity with 49% of the population white, 49% Hispanic and 2% other non-white. The median age is 38.2 years and almost 25% of the population is over 60 years. The median income is \$50,128 with an estimated 30% employed in management, professional or related occupations, 31% in services, 13.5% in sales or office and 25.5% in other occupations. An estimated 85% have a high school education and 29% have a bachelor's degree or higher. Of the 2,295 housing units an estimated 24% 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 73% 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 fiscal year. The Manager uses this information to update the previously adopted budget and develop the proposed budget. The Manager presents updates and the proposed budget to the City Council in May or June of each year. The Council holds public hearings on the updates and proposed budget 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 2012, 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 2012. 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 to 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's general fund has suffered recurring net decreases in its net assets over the last three fiscal years. The City has taken on major capital asset improvement related costs and long-term financings, public contributions and government grants have financed most of these capital related costs. General fund spending has exceeded general fund revenues and other inflows over the past three years.

Water and Wastewater rates studies were adopted in Fall 2010 and on January 1, 2011, the first of five years of rate increases were applied. These increases were based on conservative assumptions of costs, usage and development. The Water working capital projections ranged from 6% to 33% of operating revenues due to usage reductions and costs to complete a major water tank improvement project. The Wastewater working capital started in a deficit position primarily due to several prior years of operating costs increases and usage reductions. The Wastewater study projected a positive working capital of 20% of operating revenues in FY 12-13 due to conservative development projections.

Due to the need for significant improvements in both the Water and Wastewater systems to maintain the systems existing and expanded capacity for past and projected development, the debt burden for both systems ranges from 27% to 33% of operating costs. The connection fees for new development were significantly increased in 2004 to fund costs relating to the expanded capacity that benefits new development. There is a significant reliance on development to provide one time revenues to fund portions of debt service payments and retire outstanding debt early.

Even the conservative projections of development in the 2010 rate studied have not occurred primarily due to the economic conditions beyond the City's control. However, several major projects have been approved or are in the approval process and are likely to develop over the next 24 to 36 months.

The City's General fund had a transfer out of \$.4 million to the Wastewater for operations since it had a deficit balance with no cash available at June 30, 2011. The General fund also had a transfer out of a little less than \$.5 million to the water fund for litigation and consulting costs.

The City will complete a comprehensive review of the adopted Water and Wastewater rate studies to determine why the various assumptions in the rate studies have not generated the working capital projected.

The City will need 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



Glofia Leon
Administrative Services Director/City Treasurer

**City of Calistoga, California
Principal City Officials
As of June 30, 2011**

Elected Officials

City Council

Jack Gingles
Michael Dunsford
Gary Kraus
Chris Canning
Karen Slusser

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

Appointed Officials

City Management Staff

Richard Spittler
Michelle Marchetta Kenyon
Jonathan Mills
Ken McNab
Steve Campbell
Susan Sneddon
William M. Mushallo
Daniel Takasugi, P.E.

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

CITY OF CALISTOGA ORGANIZATIONAL CHART

