

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS**



Terry E. Krieg, CPA

Certified Public Accountant

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, as of and for the year ended June 30, 2011 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 opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America. 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, 2011, 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 accompanying financial statements have been prepared assuming that the City's General Fund, and its Water and Wastewater Enterprise Funds will continue as going concerns. As discussed in note 5-J to the financial statements, 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 enterprises 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 regard to these matters are also described in Note 5-J to these financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 11 and pages 43 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express or provide any assurance.

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 combining nonmajor fund financial statements, individual fund schedules, and schedules of capital assets are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

The City in fiscal year 2011, implemented the provisions of Governmental Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions which implementation resulted in the reporting of fund balances of governmental-type funds into certain categories as discussed in Note 1D-7 and 5G to these financial statements.


Certified Public Accountant
March 24, 2012

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, 2011. Please read it in conjunction with the City's accompanying transmittal letter, the basic financial statements and the accompanying notes to these financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2011, the assets of the City of Calistoga's' Governmental Activities exceeded its liabilities at the close of the fiscal year by \$14.8 million (net assets). Of that amount \$9.1 million was invested in capital assets net of related debt. There are restricted funds of \$6.3 for capital projects, public safety, streets and housing. The remaining deficit of \$.6 million is unrestricted funds which are unavailable for spending.
- Overall City-wide revenues from all governmental and business-type activities decreased by \$1.0 million compared to the 2010 fiscal year for a 2011 total of \$13.3 million. All of the decrease was primarily due to less available funding from Capital grants and contributions for capital projects. Transient occupancy taxes rose by \$.3 million from prior year and property, sales and other taxes rose by \$.2 million indicating a change in consumer spending from the prior year. Business-type activity revenues decreased by \$.4 million from the prior year. This was primarily due to less funding from grants and contributions. Total business-type charges for service revenues approximated \$ 4.1 million.
- The City's total expense of all programs in fiscal 2011 increased by \$.5 million compared to 2010 due mainly to litigation matters.
- The General Fund reported a year end fund balance of \$16,911 at the end of the 2011 year.
- The City business-type water and wastewater enterprise funds ended the 2011 fiscal year with net assets of \$ 13.8 million, most of which is invested in the water and wastewater facilities and systems (net of related debt).
- The City's other non-major governmental funds ended 2011 with \$ 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	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
Required financial statements	> Statement of net assets > Statement of activities	> Balance sheet > Statement of revenues, expenditures, and changes in fund balances	> Statement of net assets > Statement of revenues expenses, and changes in net assets > Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of inflow/outflow information	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 present the total financial picture of the City and provide readers with a broad view of the City's finances 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 Fund, 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 decreased by \$.7 million between fiscal years 2010 and 2011 to \$ 28.6 million. Approximately 79% 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 21% is essentially represented by cash, investments and receivables. About 83% of the City's total liabilities are represented by long-term obligations.

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010 to 2011
Current and other assets	\$ 8.7	\$ 10.1	\$ 1.3	\$ 1.0	\$ 10.0	\$ 11.1	-9.9%
Capital assets	14.3	12.1	28.8	30.0	43.1	42.1	2.4%
Total assets	23.0	22.2	30.1	31.0	53.1	53.2	-.2%
Long-term debt outstanding	5.1	5.3	14.9	15.7	20.0	21.0	-4.8%
Other liabilities	3.1	1.7	1.4	1.2	4.5	2.9	55.2
Total liabilities	8.2	7.0	16.3	16.9	24.5	23.9	2.5%
Net assets							
Invested in capital assets	9.1	8.8	13.6	13.7	22.7	22.5	.9%
Restricted	6.3	6.2	-	-	6.3	6.2	1.6%
Unrestricted	(.6)	.2	.2	0.4	(.4)	0.6	-166.7%
Total net assets	\$ 14.8	\$ 15.2	\$ 13.8	\$ 14.1	\$ 28.6	\$ 29.3	-2.4%

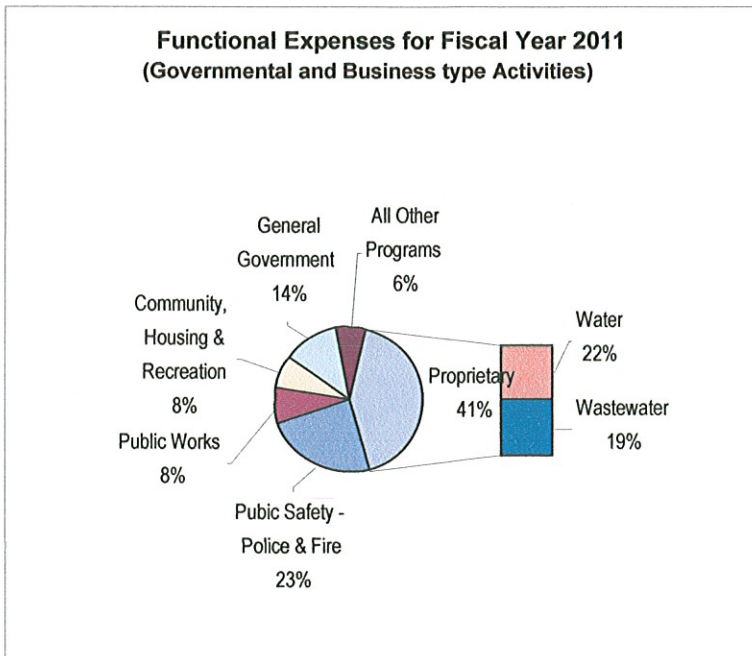
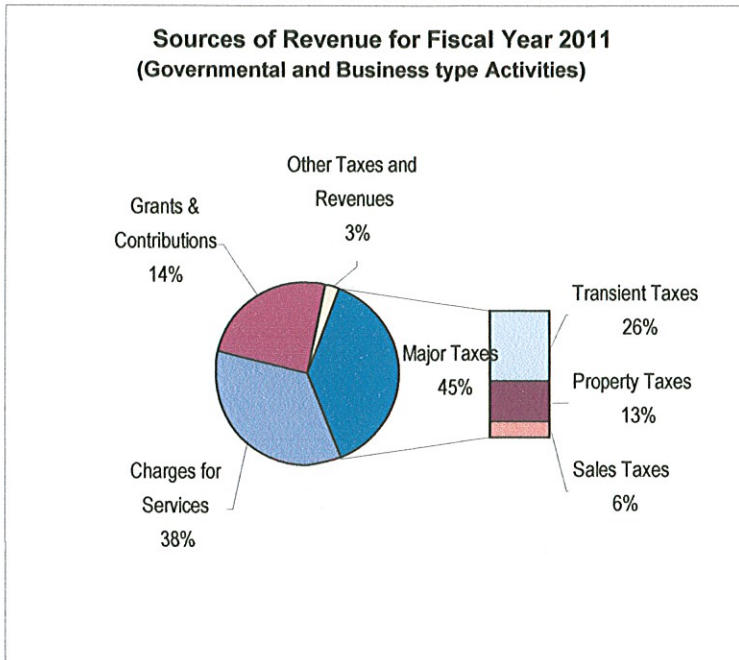
Changes in net assets. The City's 2011 total revenues of \$13.3 million was \$1 million less than in 2010, a 7% decrease. This decrease was the result of less one time grants and capital contributions received in 2011. During fiscal year 2011 45% of the City's total revenue came from various taxes including property, sales, transient occupancy, and 3% from other taxes as opposed to 40% in 2010. The remainder of revenues came from fees charged for services, state/local/federal grants and contributions. The total cost of all programs and services in 2011 was \$14 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).

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
	2011	2010	2011	2010	2011	2010	2010 to 2011
Revenues							
Program revenues							
Charges for services	\$ 1.0	\$ 0.9	\$ 4.1	\$ 4.0	\$ 5.1	\$ 4.9	4.1%
Grants and contributions	1.4	2.6	.5	1.0	1.9	3.6	-47.2%
General revenues							
Transient occupancy taxes	3.4	3.1	-	-	3.4	3.1	9.7%
Property, Sales and other taxes	2.9	2.7	-	-	2.9	2.7	7.4%
Other	-	-	-	-	-	-	
Total revenues	8.7	9.3	4.6	5.0	13.3	14.3	-7.0%
Expenses							
General government	1.9	1.7	-	-	1.9	1.7	11.8%
Public safety	3.2	3.2	-	-	3.2	3.2	0.0%
Community services	0.4	0.3	-	-	0.4	0.3	33.3%
Housing	0.1	0.1	-	-	0.1	0.1	0.0%
Recreation services	0.6	0.5	-	-	0.6	0.5	20.0%
Public works	1.1	1.1	-	-	1.1	1.1	0.0%
Planning & Building	0.6	0.6	-	-	0.6	0.6	0.0%
Water	-	-	3.1	2.9	3.1	2.9	6.9%
Wastewater	-	-	2.7	2.8	2.7	2.8	-3.6%
Other	0.3	0.3	-	-	0.3	0.3	0.0%
Total expenses	8.2	7.8	5.8	5.7	14.0	13.5	3.7%
Excess (deficiency) before transfers	.5	1.5	(1.2)	(0.7)	(0.7)	0.8	-187.5%
Transfers	(.9)	(1.4)	.9	1.4	-	-	0.0%
Increase(decrease) in net assets	(.4)	.1	(.3)	.7	(.7)	.8	-187.5%
Net assets, beginning	15.2	15.1	14.1	13.4	29.3	28.5	2.8%
Net assets, ending	\$14.8	\$15.2	\$13.8	\$14.1	\$28.6	\$29.3	-2.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2011 decreased by \$.6 million to \$8.7 million compared to \$ 9.3 million in 2010. Approximately 39 % of the revenue from governmental activities is derived from the Transient Occupancy tax (it is 39% of the General Fund revenue). The City's Transient Occupancy tax revenue increased by \$.3 million or 10% in 2011 a reflection of consumer confidence in tourism activity during the fiscal year. The City received an increase of 1% or \$.03 million in property tax allocations as compared to Fiscal Year 2010.

As the graph on Page 7 shows, the City's primary sources of revenue come from charges for services and tax revenues. About 71% 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 64 % of the City's total operating expenses in fiscal 2011.

When all operations were concluded, the governmental activities function reported a change of negative \$.4 million in net assets for fiscal 2011. This amount primarily reflects a decrease of \$1.2 million in grants, contributions, and donations revenue received for capital projects and an increase of \$.4 million in expenditures. Net assets of business type-activities decreased \$.3 million year over year due to expenses exceeding charges for services and less capital grants and contributions received in 2011.

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 \$ 13.9 million, compared to \$ 13.6 million in fiscal 2010; about a 3.0% increase for the year.

Table A-3				
Cost of City of Calistoga Programs				
(in millions of dollars)				
	Total Cost of Services		Total Percentage Change	
	2011	2010	2010 to 2011	
Public Safety	\$ 3.2	\$ 3.2	0.0%	
General Government	1.8	1.7	5.9%	
Public Works	1.1	1.1	0.0%	
Water	3.1	2.9	6.9%	
Wastewater	2.7	2.8	-3.6%	
All other	2.0	1.9	5.3%	
Total	\$ 13.9	\$ 13.6	2.2%	

Governmental Activities

Users and contributors funded \$ 2.4 million of the \$ 8.1 million in costs of city's governmental activity programs leaving the City general revenues to fund the other \$ 5.7 million. General revenues were sufficient to pay for these services. The expense of governmental services was absorbed by:

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Those who directly benefited from or used the programs (about \$ 1.0 million), and
- Other governments and organizations that subsidized certain programs with grants and contributions (about \$ 1.4 million).

The City used fund balance reserves to cover the loss of \$.4 million in operating costs in the governmental activities.

Business-Type Activities

The City's business-type activities (water and wastewater) had a loss in net assets of \$.3 million during the fiscal year. The water utility had cost increases from higher legal fees in fiscal 2011 compared to the prior year. In addition capital grants and contributions decreased by \$.5 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$1.6 million which is \$ 2.7 million lower than was reported at the end of fiscal year 2010. Though the General Fund had an increase of \$1.3 million in revenues as compared to 2010 the costs of the City's General Fund operations were \$.7 million more than General Fund revenues. After transfers in and out, the General Fund reported a net \$.9 million decrease in fund balance. This was primarily due to a combination of an increase in legal costs, risk management, community activities, recreation services, pool maintenance, and one time capital outlay expenses.

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.

At year end, the City's General Fund had a fund balance of \$16,911. The fund balance of \$16,911 is nonspendable which means the City starts the new fiscal year of 2012 with no available general fund reserves. Due to the lack of readily available cash for daily operations the City borrowed \$1.5 million under a Tax and Revenue Anticipation Note to address cash flow management during the course of the year which will be repaid by June 29, 2012.

In addition, the City's other major and nonmajor governmental funds ended the 2011 fiscal year with a combined fund balance of \$1.5 million which is to be used only for certain specific future purposes. In 2010 the fund balance of other major and non-major governmental funds was \$3.3 million. The decrease of \$1.8 million in fund balance was contributed to \$800,000 capital outlay expenditure for the claim settlement of the pool and \$915,314 transfers out to the general fund for the fire station project, and \$261,434 to the community pool project.

The General fund had a transfer out of \$.4 million to the Wastewater Enterprise Fund for operations since it had a deficit balance with no cash available at June 30, 2011. The Water Enterprise Fund had a transfer in from the General fund of \$.5 million for litigation and consulting costs.

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 \$1.5 million more than projected budgeted amounts due primarily to one time funding of Measure A storm drain reimbursements and grants from the State of California and County of Napa for the fire station and bus shelter projects. Actual General Fund expenditures were \$.2 million more than final

MANAGEMENT'S DISCUSSION AND ANALYSIS

budget amounts. The General Fund expenditure budget changes from the final to actual were primarily due to increases in risk management, legal costs, recreation services, and maintenance of streets.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had invested \$ 43.1 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 increase (including additions and deductions) of about \$ 1.4 million, or 3.4%, more than last year.

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change 2010 to 2011
	2011	2010	2011	2010	2011	2010	
Land	\$2.0	\$2.0	\$2.8	\$2.8	\$ 4.8	\$ 4.8	0.0%
Construction in progress	.4	1.2	0.6	0.5	1.1	1.7	-41.2%
Buildings	2.2	0.5			2.2	0.5	340%
Machinery and equipment	0.2	0.2			0.2	0.2	0.0%
Internal service equipment	0.9	0.8			0.9	0.8	12.5%
Improvements	8.6	7.4			8.6	7.4	16.2%
Water utility system			11.4	11.7	11.4	11.7	-2.6%
Wastewater system			14.0	14.6	14.0	14.6	-4.1%
Total	\$ 14.3	\$ 12.1	\$ 28.8	\$ 29.6	43.1	41.7	3.4%

This year's major capital assets additions included:

In fiscal 2011, the City completed the Fire Station renovation project. Improvements of approximately \$1.1M during fiscal year 2011 included \$800K for settlement of the construction contract on the Community Pool project, \$600K for drainage improvements to reduce flooding in southeastern Calistoga and less \$300K for depreciation expense. The water and wastewater systems did not add any significant improvements during the fiscal year. The change in Capital Assets for both the water and wastewater systems is primarily due to accumulated depreciation realized during the year.

Long Term Debt

At the end of 2011, the City had \$ 21.8 million in long-term debt and capital lease obligations outstanding, which is a net decrease of \$.7 million from the prior year. Of the \$ 21.8 million, approximately 72% relates to the City's business-type activities, mainly the water and wastewater systems, and the remaining 28% is applicable to governmental type financing activities.

For fiscal year 2011 the City entered into a capital lease in the amount of \$249,000 with Zions Bank for the purchase of a street sweeper, patrol car, police radios and fire SCBA equipment. The City was also able to repay the \$1.5 million Tax and Revenue Anticipation Note in fiscal year 2011 for purposes of managing cash flow throughout the year.

In the business-type activities the City made all required payments of principal and interest on its obligations despite the City's strained financial conditions.

The City on July 7, 2011 obtained a 40 year USDA loan issued as a Certificate of Participation for \$3.8 million for the purpose of financing water system improvements.

Additional information about the City's long-term obligations can be found in Section F under the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2012 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.

- Budget projections for the 2011/12 fiscal year are 2 percent higher than last year for a total of \$7.0 million. Transient Occupancy tax, property, tax and sales tax comprise 45 percent of the City's general fund revenue. Revenues have been projected conservatively due to uncertainty in the economy and concern regarding the state budget deficit and the impact it may have on local government. There are no other significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City.
- The General Fund 2012 budgeted operating appropriations adopted are \$6.3 million. This is a decrease of \$ 0.3 million or 5% compared to final 2011 appropriations of \$ 6.6 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.
- 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 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.
- 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 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.

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 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).

CITY OF CALISTOGA
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,332,546	\$ 13,564	\$ 1,346,110
Net receivables	968,164	932,566	1,900,730
Inventory	11,201	-	11,201
Total current assets	<u>2,311,911</u>	<u>946,130</u>	<u>3,258,041</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,198,097	-	1,198,097
Internal balances	58,068	(58,068)	-
Receivables-long-term	5,183,621	115,834	5,299,455
Debt issuance costs	19,312	299,626	318,938
Net capital assets	<u>14,277,443</u>	<u>28,768,116</u>	<u>43,045,559</u>
Total noncurrent assets	<u>20,736,541</u>	<u>29,125,508</u>	<u>49,862,049</u>
Total assets	<u>\$ 23,048,452</u>	<u>\$ 30,071,638</u>	<u>\$ 53,120,090</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 345,527	\$ 208,988	\$ 554,515
Accrued liabilities	179,253	-	179,253
Compensated absences	214,549	79,574	294,123
Deposits	270,495	104,701	375,196
Accrued interest payable	108,035	203,584	311,619
Unearned revenues	-	192,157	192,157
Claims and settlements	1,099,197	-	1,099,197
Bonds, leases, agreements, notes and certificates due in one year	<u>474,908</u>	<u>564,123</u>	<u>1,039,031</u>
Total current liabilities	<u>2,691,964</u>	<u>1,353,127</u>	<u>4,045,091</u>
Noncurrent liabilities:			
Compensated absences	130,000	20,000	150,000
Net other post employment benefit obligation	287,695	-	287,695
Bonds, leases, agreements, notes and certificates due in more than one year	<u>5,085,046</u>	<u>14,919,056</u>	<u>20,004,102</u>
Total noncurrent liabilities	<u>5,502,741</u>	<u>14,939,056</u>	<u>20,441,797</u>
Total liabilities	<u>8,194,705</u>	<u>16,292,183</u>	<u>24,486,888</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,134,898	13,584,563	22,719,461
Restricted for:			
Streets, recreation, capital projects	381,759	-	381,759
Public safety	125,782	-	125,782
Housing	5,812,489	-	5,812,489
Unrestricted	<u>(601,181)</u>	<u>194,892</u>	<u>(406,289)</u>
Total net assets	<u>14,853,747</u>	<u>13,779,455</u>	<u>28,633,202</u>
Total liabilities and net assets	<u>\$ 23,048,452</u>	<u>\$ 30,071,638</u>	<u>\$ 53,120,090</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Program Revenues				City Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Net (Expenses) Revenue and Changes in Net Assets
							Total
City government							
Governmental activities:							
General government	\$ 1,842,683	\$ 265,929	\$ -	\$ 50,584	\$ (1,526,170)	\$ -	\$ (1,526,170)
Public safety	3,178,320	185,890	111,878	272,821	(2,607,731)	-	(2,607,731)
Community services	385,499	21,734	-	-	(363,765)	-	(363,765)
Housing	123,490	146,202	-	-	22,712	-	22,712
Recreation services	615,712	123,832	11,553	-	(480,327)	-	(480,327)
Public works	1,123,110	66,484	149,437	790,007	(117,182)	-	(117,182)
Planning and building	637,991	182,174	-	-	(455,817)	-	(455,817)
Interest on long-term debt	291,896	-	-	-	(291,896)	-	(291,896)
Total governmental activities	8,198,701	992,245	272,868	1,113,412	(5,820,176)	-	(5,820,176)
Business-Type Activities:							
Water	3,055,351	2,100,595	-	472,125	-	(482,631)	(482,631)
Wastewater	2,695,348	1,952,322	-	16,707	-	(726,319)	(726,319)
Total business-type activities	5,750,699	4,052,917	-	488,832	-	(1,208,950)	(1,208,950)
Total City government	\$ 13,949,400	\$ 5,045,162	\$ 272,868	\$ 1,602,244	(5,820,176)	(1,208,950)	(7,029,126)
		General revenues and transfers					
		General revenues:					
		Taxes:					
		Property taxes			1,685,427	-	1,685,427
		Transient occupancy taxes			3,430,487	-	3,430,487
		Sales taxes			796,563	-	796,563
		Other taxes			312,778	-	312,778
		Motor vehicle in lieu fees not restricted to a specific program			24,494	-	24,494
		Unrestricted investment earnings			9,693	-	9,693
		Other general revenues			57,164	-	57,164
		Transfers			(859,808)	859,808	-
		Total general revenues and transfers			5,456,798	859,808	6,316,606
		Change in net assets			(363,378)	(349,142)	(712,520)
		Net assets, beginning			15,217,125	14,128,597	29,345,722
		Net assets, ending			<u>\$ 14,853,747</u>	<u>\$ 13,779,455</u>	<u>\$ 28,633,202</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	HOME Grant Fund	CDBG Open Grant Fund	Capital Lease Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 64,804	\$ 480	\$ 187	\$ 1,198,097	\$ 1,115,881	\$ 2,379,449
Taxes receivable	851,192	-	-	-	-	851,192
Accounts receivable	7,391	-	-	-	36	7,427
Due from other governments	72,672	-	-	-	34,780	107,452
Accrued interest receivable	2,093	-	-	-	-	2,093
Advances to other funds	56,518	-	-	-	-	56,518
Notes receivable	-	3,140,025	1,250,586	-	793,010	5,183,621
Total assets	\$ 1,054,670	\$ 3,140,505	\$ 1,250,773	\$ 1,198,097	\$ 1,943,707	\$ 8,587,752
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 331,681	\$ -	\$ -	\$ -	\$ 5,290	\$ 336,971
Accrued liabilities	179,253	-	-	-	-	179,253
Claims payable	265,000	-	-	800,000	-	1,065,000
Advances from other funds	-	-	-	-	1,450	1,450
Deposits	261,825	-	-	-	8,670	270,495
Deferred revenue	-	3,140,025	1,250,586	-	793,010	5,183,621
Total liabilities	1,037,759	3,140,025	1,250,586	800,000	808,420	7,036,790
Fund balances:						
Nonspendable	16,911	-	-	-	-	16,911
Restricted for capital improvements	-	-	-	398,097	-	398,097
Restricted for affordable housing	-	480	187	-	628,201	628,868
Restricted for streets	-	-	-	-	327,317	327,317
Restricted for facilities	-	-	-	-	50,584	50,584
Restricted for public safety	-	-	-	-	125,782	125,782
Restricted for parks	-	-	-	-	2,150	2,150
Restricted for debt service	-	-	-	-	1,708	1,708
Unassigned	-	-	-	-	(455)	(455)
Total fund balances	16,911	480	187	398,097	1,135,287	1,550,962
Total liabilities and fund balances	\$ 1,054,670	\$ 3,140,505	\$ 1,250,773	\$ 1,198,097	\$ 1,943,707	\$ 8,587,752
Total Governmental Fund Balances						\$ 1,550,962
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds						13,353,444
Long-term receivables used in governmental activities are not current financial resources and are therefore deferred in the funds						5,183,621
The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets						458,507
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						(287,895)
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						(5,405,092)
Net Assets of Governmental Activities						\$ 14,853,747

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, 2011

	General Fund	HOME Grant Fund	CDBG Open Grant Fund	Capital Lease Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 1,685,427	\$ -	\$ -	\$ -	\$ -	\$ 1,685,427
Sales taxes	796,563	-	-	-	-	796,563
Transient occupancy taxes	3,430,487	-	-	-	-	3,430,487
Other taxes	312,778	-	-	-	-	312,778
Licenses and permits	65,022	-	-	-	-	65,022
Fines and forfeits	53,486	-	-	-	-	53,486
Intergovernmental	1,052,047	-	-	-	272,765	1,324,812
Interest and rents	9,546	-	-	147	51,587	61,280
Charges for services	604,313	-	-	-	72,941	677,254
Miscellaneous	120,914	480	-	-	107,828	229,222
Total revenues	8,130,583	480	-	147	505,121	8,636,331
EXPENDITURES						
Current:						
General government	1,829,295	-	-	-	-	1,829,295
Public safety	3,002,549	-	-	-	52,140	3,054,689
Community services	363,846	-	-	-	-	363,846
Housing	-	-	-	-	123,490	123,490
Recreation services	438,931	-	-	-	3,944	442,875
Public works	962,660	-	-	-	63,782	1,026,442
Planning and building	602,200	-	-	-	-	602,200
Debt service:						
Principal	-	-	-	-	355,760	355,760
Interest	39,930	-	-	-	255,925	295,855
Capital outlay	1,573,936	-	-	800,000	-	2,373,936
Total expenditures	8,813,347	-	-	800,000	855,041	10,468,388
Excess (deficiency) of revenues over expenditures	(682,764)	480	-	(799,853)	(349,920)	(1,832,057)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,150,243	-	-	-	611,686	1,761,929
Transfers out	(1,383,572)	-	-	(960,780)	(277,385)	(2,621,737)
Total other financing sources (uses)	(233,329)	-	-	(960,780)	334,301	(859,808)
Net change in fund balances	(916,093)	480	-	(1,760,633)	(15,619)	(2,691,865)
Fund balances, July 1	933,004	-	187	2,158,730	1,150,906	4,242,827
Fund balances, June 30	\$ 16,911	\$ 480	\$ 187	\$ 398,097	\$ 1,135,287	\$ 1,550,962

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, 2011

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (2,691,865)</u>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$2,378,754 exceed depreciation (\$357,248).</p>	2,021,506
<p>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</p>	355,760
<p>Debt issuance costs are reported as an outflow of resources in the funds but are amortized to expenses in the statement of activities</p>	(1,136)
<p>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</p>	5,095
<p>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.</p>	8,134
<p>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</p>	13,626
<p>Increases in long-term claim liabilities do not require the use of current financial resources and are not reported in the funds</p>	20,395
<p>Increases in other post employment benefit obligations do not result in the use of current financial resources and are not reported in the funds</p>	(153,695)
<p>Interest earned on long-term receivables that is not currently due and payable but is deferred to maturity or sale of the note is deferred in the funds, but is reported as current period income in the statement of activities.</p>	91,457
<p>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</p>	<u>(32,655)</u>
Net differences	<u>2,328,487</u>
Change in Net Assets of Governmental Activities	<u>\$ (363,378)</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds			Governmental Activities- Internal Service Fund
	Water	Wastewater	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 6,180	\$ 7,384	\$ 13,564	\$ 151,194
Receivables(net)	591,405	341,161	932,566	-
Inventory	-	-	-	11,201
Internal balances	-	-	-	3,000
Total current assets	597,585	348,545	946,130	165,395
Noncurrent assets:				
Other assets:				
Notes receivable	27,424	88,410	115,834	-
Debt issuance costs	160,023	139,603	299,626	-
Total other noncurrent assets	187,447	228,013	415,460	-
Capital assets:				
Land	2,338,730	464,108	2,802,838	-
Equipment and vehicles	1,027,646	625,063	1,652,709	3,040,205
Distribution and collection systems	14,831,096	19,670,003	34,501,099	-
Water rights, net of amortization	1,212,694	-	1,212,694	-
Construction in progress	628,877	-	628,877	-
Less accumulated depreciation	(5,662,849)	(6,367,252)	(12,030,101)	(2,116,203)
Net capital assets	14,376,194	14,391,922	28,768,116	924,002
Total noncurrent assets	14,563,641	14,619,935	29,183,576	924,002
Total assets	\$ 15,161,226	\$ 14,968,480	\$ 30,129,706	\$ 1,089,397
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 127,771	\$ 81,217	\$ 208,988	\$ 8,559
Compensated absences	39,787	39,787	79,574	-
Deposits	30,658	74,043	104,701	-
Accrued interest	81,134	122,450	203,584	9,558
Deferred revenue	50,743	141,414	192,157	-
Agreements, loans, and certificates due in one year	193,000	371,123	564,123	102,292
Total current liabilities	523,093	830,034	1,353,127	120,409
Noncurrent liabilities:				
State revolving loan payable	-	3,707,556	3,707,556	-
Certificate of participation	2,163,000	1,868,500	4,031,500	-
Installment agreement	4,365,000	2,815,000	7,180,000	-
Capital lease obligation	-	-	-	510,481
Advances from other funds	58,068	-	58,068	-
Compensated absences	10,000	10,000	20,000	-
Total noncurrent liabilities	6,596,068	8,401,056	14,997,124	510,481
Total liabilities	7,119,161	9,231,090	16,350,251	630,890
NET ASSETS				
Invested in capital assets, net of related debt	7,815,217	5,769,346	13,584,563	311,229
Unrestricted	226,848	(31,956)	194,892	147,278
Total net assets	\$ 8,042,065	\$ 5,737,390	\$ 13,779,455	\$ 458,507

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, 2011

	Enterprise Funds			Governmental Activities Internal- Service Fund
	Water	Wastewater	Totals	
OPERATING REVENUES				
Sales of water	\$ 2,032,016	\$ -	\$ 2,032,016	\$ -
Service fees	-	1,915,323	1,915,323	307,656
Miscellaneous	68,456	36,589	105,045	21,378
Total operating revenues	2,100,472	1,951,912	4,052,384	329,034
OPERATING EXPENSES				
Maintenance and operations	1,483,152	698,187	2,181,339	203,021
Employee services	793,270	938,686	1,731,956	-
Interfund charges for services	82,500	82,500	165,000	-
Depreciation and amortization	400,358	640,939	1,041,297	99,635
Total operating expenses	2,759,280	2,360,312	5,119,592	302,656
Operating income (loss)	(658,808)	(408,400)	(1,067,208)	26,378
NON-OPERATING REVENUES (EXPENSES)				
Gain(Loss) on capital assets	-	-	-	-
Interest and investment revenue	123	410	533	-
Interest expense	(296,071)	(335,036)	(631,107)	(12,752)
net nonoperating revenues (expenses)	(295,948)	(334,626)	(630,574)	(12,752)
Income (loss) before contributions and transfers	(954,756)	(743,026)	(1,697,782)	13,626
Contributions and transfers:				
Capital contributions	472,125	16,707	488,832	-
Transfers in	462,400	397,408	859,808	-
Net contributions and transfers	934,525	414,115	1,348,640	-
Change in net assets	(20,231)	(328,911)	(349,142)	13,626
Total net assets, July 1	8,062,296	6,066,301	14,128,597	444,881
Total net assets, June 30	\$ 8,042,065	\$ 5,737,390	\$ 13,779,455	\$ 458,507

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds			Governmental Activities- Internal Service Fund
	Water	Wastewater	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,094,437	\$ 1,974,871	\$ 4,069,308	\$ -
Payments to suppliers	(1,458,759)	(688,821)	(2,147,580)	(208,137)
Cash received from other funds for services	-	-	-	307,656
Payments to other funds for services	(82,500)	(82,500)	(165,000)	-
Payments to employees for services	(792,208)	(937,624)	(1,729,832)	-
Other operating receipts	68,456	36,589	105,045	21,378
Net cash provided by (used for) operating activities	<u>(170,574)</u>	<u>302,515</u>	<u>131,941</u>	<u>120,897</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from other funds	58,068	-	58,068	-
Transfers in from other funds	462,400	394,408	856,808	-
Net cash provided by noncapital financing activities	<u>520,468</u>	<u>394,408</u>	<u>914,876</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions and grants	423,901	16,707	440,608	-
Proceeds of long-term leases	-	-	-	248,460
Payments on long-term debt principal	(427,000)	(358,624)	(785,624)	(53,572)
Interest paid on long-term debt	(300,699)	(335,901)	(636,600)	(9,252)
Purchases of capital assets	(136,451)	(12,131)	(148,582)	(257,239)
Net cash provided by (used for) capital and related financing activities	<u>(440,249)</u>	<u>(689,949)</u>	<u>(1,130,198)</u>	<u>(71,603)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest receipts	123	410	533	-
Net cash provided by investing activities	<u>123</u>	<u>410</u>	<u>533</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(90,232)	7,384	(82,848)	49,294
Balances-beginning of the year	96,412	-	96,412	101,900
Balances-end of the year	<u>\$ 6,180</u>	<u>\$ 7,384</u>	<u>\$ 13,564</u>	<u>\$ 151,194</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

Enterprise Funds

	Water	Wastewater	Totals	Governmental Activities- Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (658,808)	\$ (408,400)	\$ (1,067,208)	\$ 26,378
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	400,358	640,939	1,041,297	99,635
Change in assets and liabilities:				
Decrease(increase) in deposits	1,185	27,755	28,940	-
Decrease(increase) in accounts receivable	10,493	34,299	44,792	-
Increase(decrease) in other liabilities	36,856	20,842	57,698	-
Increase(decrease) in accounts payable	39,342	(12,920)	26,422	(1,447)
(Increase) decrease in inventory	-	-	-	(3,669)
	<u>\$ (170,574)</u>	<u>\$ 302,515</u>	<u>\$ 131,941</u>	<u>\$ 120,897</u>
Net cash provided by (used for) operating activities	<u>\$ (170,574)</u>	<u>\$ 302,515</u>	<u>\$ 131,941</u>	<u>\$ 120,897</u>

Noncash capital financing activities:

None:

See accompanying notes to the basic financial statements

**City of Calistoga
Statement of Fiduciary Net Assets
June 30, 2011**

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 36,826
Assessments receivable	<u>79,940</u>
Total assets	<u>\$ 116,766</u>
LIABILITIES	
Deposits payable to Tourism Business Improvement District	<u>\$ 116,766</u>
Total liabilities	<u>\$ 116,766</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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, 2011

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 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, 2011

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, 2011

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.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 Balances Governmental Funds

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the city is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. These classifications include (1) nonspendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned amounts.

Nonspendable amounts generally are items not expected to be readily converted into cash such as inventories, prepaid items, and long-term receivables not offset by deferred revenue accounts. Restricted amounts include those where constraints placed on the uses of the resources are externally imposed by grantors, contributors, other governments or by laws and regulations. Committed amounts are those that can only be used for a specific purpose as determined by the City Council. Such committed amounts may be redeployed for other uses only by the direction of the City Council. Assigned amounts are fund balance amounts constrained by the City's intent to be used for specific purposes as determined by the City Manager or City Finance Director. Unassigned fund balance amounts are the residual amounts reported only in the general fund or funds having deficit balances.

When expenditures are incurred for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the City considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the City considers committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

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.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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 \$ 13,353,444 difference are as follows:

Capital assets	\$ 17,004,699
Less: Accumulated depreciation	<u>(3,651,255)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 13,353,444</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 \$ 5,405,092 difference are as follows:

Long-Term Debt Obligations and Related Interest:	
Accrued interest	\$ (98,477)
Capital lease obligations	(4,947,181)
Capitalized debt issuance costs	19,312
Claims	(34,197)
Compensated absences	<u>(344,549)</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (5,405,092)</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 \$ 2,328,487 difference and other significant components of the difference are as follows:

Capital outlay; capitalized	\$ 2,378,754
Depreciation expense	(357,248)
Repayment of long-term debt principal	355,760
Internal service fund income	13,626
Other post employment benefit expense	(153,695)
Long-term loans made and deferred	(32,658)
Other items	<u>123,948</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>\$ 2,328,487</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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 General fund by \$233,625, Public safety fund by \$12,000, CDBG loan repayment by \$3,462, and debt service fund by \$112,787. These over expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2011 consisted of the following:

Demand deposits: (Time deposits and book bank balances)	\$ 498,329
Pooled investments	884,607
Investments with trustees	<u>1,198,097</u>
 Total deposits and investments	 <u>\$ 2,581,033</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, 2011, \$386,754 of the City's bank balances of \$ 636,754 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent But not in the City's name:	<u>\$ 386,754</u>
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Investments - At June 30, 2011, the City had the following investments.

Investment	Average Maturity	Fair Value
State Investment Pool (LAIF)	237 days	\$ 884,607
Goldman Sachs Fin SQ Government Fund	14 days	<u>1,198,097</u>
		 <u>\$ 2,082,704</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, 2011

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	\$ 7,391	\$ -	\$ 36	\$ 7,427	\$ 324,605	\$ 341,161
Taxes	851,191	-	-	891,191	-	-
Interest	2,093	-	-	2,093	-	-
Governments	72,672	-	33,330	106,002	266,800	-
Notes	-	4,390,611	793,010	5,183,621	27,424	88,410
Totals	\$ 933,347	\$4,390,611	\$ 826,376	\$ 6,190,334	\$ 618,829	\$ 429,571

The notes receivable of \$5,299,455 consists of housing rehabilitation loans of \$211,832 bearing interest at rates of 3 to 6 percent and repayable in monthly installments, other loans of \$697,012 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 4th 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 \$3,140,025 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, 2011, is as follows:

	General Fund	Non-Major Funds	Water Fund	Wastewater Fund	Total Transfers Out
Transfers In:					
Transfers Out:					
General fund	\$ -	\$ 523,764	\$462,400	\$ 397,408	\$ 1,383,572
Capital lease	960,780	-	-	-	960,780
Nonmajor funds	189,463	87,922	-	-	277,385
Totals	\$ 1,150,243	\$ 611,686	\$ 462,400	\$ 397,408	\$ 2,621,737

The \$960,780 transfer out of the capital lease fund was made to reimburse the general fund for the community pool and other capital costs. The \$611,686 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 transfer into the wastewater fund was made to write down interfund advances to realizable amounts.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

2. The composition of interfund balances was:

Receivable Fund	Payable Fund	Asset	Liability
General fund	Water enterprise	\$ 55,068	\$ -
General fund	Wastewater enterprise	-	-
		<u>55,068</u>	<u>-</u>
Internal service fund	Wastewater enterprise	3,000	-
	Water	-	58,068
	wastewater	-	-
Totals		<u>\$ 58,068</u>	<u>\$ 58,068</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, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,964,744	\$ -	\$ -	\$ 1,964,744
Construction in progress	1,245,636	198,845	(990,424)	454,057
Total capital assets, not being depreciated	<u>3,210,380</u>	<u>198,845</u>	<u>(990,424)</u>	<u>2,418,801</u>
Capital assets, being depreciated:				
Buildings	1,704,868	1,770,723	(27,207)	3,448,384
Machinery and equipment	945,706	-	(75,551)	870,155
Equipment- internal service fund	2,782,966	257,239	-	3,040,205
Improvements	8,840,539	1,426,817	-	10,267,356
Total capital assets being depreciated	<u>14,274,079</u>	<u>3,454,779</u>	<u>(102,758)</u>	<u>17,626,100</u>
Less accumulated depreciation for:				
Buildings	(1,195,658)	(43,828)	-	(1,239,486)
Machinery and equipment	(732,957)	(38,154)	75,551	(695,560)
Equipment-internal service	(2,016,568)	(99,635)	-	(2,116,203)
Improvements	(1,440,944)	(275,265)	-	(1,716,209)
Total accumulated depreciation	<u>(5,386,127)</u>	<u>(456,882)</u>	<u>75,551</u>	<u>(5,767,458)</u>
Total capital assets, being depreciated, net	<u>8,887,952</u>	<u>2,997,897</u>	<u>(27,207)</u>	<u>11,858,642</u>
Governmental activities capital assets, net	<u>\$12,098,332</u>	<u>\$ 3,196,742</u>	<u>\$ (1,017,631)</u>	<u>\$14,277,443</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 2,802,838	\$ -	\$ -	\$ 2,802,838
Construction in progress	<u>523,310</u>	<u>107,513</u>	<u>(1,946)</u>	<u>628,877</u>
Total capital assets, not being depreciated	<u>3,326,148</u>	<u>107,513</u>	<u>(1,946)</u>	<u>3,431,715</u>
Capital assets, being depreciated:				
Wastewater collection and treatment	19,668,057	1,946	-	19,670,003
Water rights	1,589,875	-	-	1,589,875
Water treatment and distribution system	14,831,096	-	-	14,831,096
Equipment-wastewater	612,932	12,131	-	625,063
Equipment-water	<u>998,707</u>	<u>28,939</u>	<u>-</u>	<u>1,027,646</u>
Total capital assets being depreciated	<u>37,700,667</u>	<u>43,016</u>	<u>-</u>	<u>37,743,683</u>
Less accumulated depreciation and amortization for:				
Wastewater collection and treatment system	(5,732,962)	(634,290)	-	(6,367,252)
Water rights	(328,191)	(48,990)	-	(377,181)
Water treatment and distribution system	<u>(5,317,338)</u>	<u>(345,511)</u>	<u>-</u>	<u>(5,662,849)</u>
Total accumulated depreciation	<u>(11,378,491)</u>	<u>(1,028,791)</u>	<u>-</u>	<u>(12,407,282)</u>
Total capital assets, being depreciated, net	<u>26,322,176</u>	<u>(985,775)</u>	<u>-</u>	<u>25,336,401</u>
Business-type activities capital assets, net	<u>\$ 29,648,324</u>	<u>\$ (878,262)</u>	<u>\$ (1,946)</u>	<u>\$ 28,768,116</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 23,943
Public safety	55,327
Community services	13,331
Recreation services	164,834
Public works	99,814
Capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	99,635
Total depreciation expense-governmental activities	\$ 456,884
 Business-type activities:	
Water	\$ 394,501
Wastewater	634,290
Total depreciation expense-governmental activities	\$ 1,028,791

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, 2011

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, 2011 were as follows:

Fiscal Year Ending June 30	Zions First National Bank Leases	Sun Trust Leasing	West America Bank Lease
2012	\$ 323,650	\$71,174	\$342,644
2013	189,128	58,950	342,644
2014	54,607	58,950	342,644
2015	54,607	58,950	342,644
2016	54,607	58,950	426,307
2017-2021	-	117,900	2,131,535
2022-2026	-	-	2,131,535
2027-2028	-	-	852,614
Total minimum lease payments	676,599	424,874	6,912,567
Less amounts representing interest interest	(42,301)	(60,561)	(2,351,224)
Net present value of minimum lease payments	<u>\$ 634,298</u>	<u>\$ 364,313</u>	<u>\$ 4,561,343</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 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 from 2.75 to 4.625 percent per annum. Annual principal and interest on the agreement are expected to require 100 percent of system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 7,048,998. Principal and interest paid for the current fiscal year and total system net revenues as defined were \$354,150 and \$(264,507) (exclusive of capital contributions of \$472,125) respectively.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

F.Long-Term Debt (Continued)

Water Enterprise (Continued)

Certificates of Participation (Continued)

Fiscal Year	Principal	Interest	Total
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	33,000	101,456	134,456
2017-2021	186,000	484,440	670,440
2022-2026	230,000	440,124	670,124
2027-2031	285,000	385,170	670,170
2032-2036	355,000	316,964	671,964
2037-2041	437,000	232,440	669,440
2042-2046	542,000	128,096	670,096
2047-2048	5,000	219	5,219
Totals	\$ 2,191,000	\$ 2,507,857	\$ 4,698,857

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 from 3.25 to 5.125 percent per annum. Future debt service on the agreement is:

Fiscal Year	Principal	Interest	Total
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	100,000	125,068	225,068
2017-2021	575,000	544,876	1,119,876
2022-2026	725,000	380,719	1,105,719
2027-2031	930,000	174,500	1,104,500
2032	215,000	5,375	220,375
Totals	\$ 2,900,000	\$ 1,772,850	\$ 4,672,850

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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 be 100 percent of system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 4,672,850. Principal and interest paid for the current fiscal year and total system net revenues as defined were \$224,578 and \$225,565 (exclusive of \$16,707 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>
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	288,582	75,009	363,591
2017-2021	1,559,436	258,519	1,817,955
2022-2024	<u>1,036,934</u>	<u>54,396</u>	<u>1,091,330</u>
Totals	<u>\$ 3,967,979</u>	<u>\$ 759,261</u>	<u>\$ 4,727,240</u>

Annual principal and interest on the agreement are expected to require 160 percent of current system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 4,727,240. Principal and interest paid for the current fiscal year and total system net revenues as defined were 363,591 and \$225,565, respectively

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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:

Fiscal Year	Principal	Interest	Total
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	30,400	76,032	106,432
2017-2021	173,100	358,748	531,848
2022-2026	213,200	318,683	531,883
2027-2031	262,400	269,362	531,762
2032-2036	323,200	208,716	531,916
2037-2041	398,000	133,779	531,779
2042-2045	383,800	41,643	425,443
Totals	\$ 1,894,200	\$ 1,722,430	\$ 3,616,630

Annual principal and interest on the agreement are expected to require 47 percent of current system net revenues as defined. The total interest and principal remaining to be paid on the agreement is \$ 3,616,630. Principal and interest paid for the current fiscal year and total system net revenues as defined were 106,358 and \$225,565 respectively

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Changes in Long-term liabilities

Long-term debt activity for the 2011 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental					
Activities:					
Capital lease obligation	\$ 628,941	\$ -	\$ 243,103	\$ 385,838	\$ 254,313
Capital lease obligation	4,674,000	-	112,657	4,561,343	118,303
Compensated absences	352,683	130,000	138,134	344,549	214,549
Capital lease- internal service	-	248,460	-	248,460	46,363
Capital lease -internal service	417,885	-	53,572	364,313	55,929
Claims and settlements	54,592	1,065,000	20,395	1,099,197	1,099,197
Total	\$ 6,128,101	\$1,443,460	\$ 567,861	\$ 7,003,700	\$ 1,788,654
Business-type					
Activities:					
Installment agreement-water	\$ 4,685,000	\$ -	\$ 155,000	\$ 4,530,000	\$ 165,000
Certificates participation - water	2,463,000	-	272,000	2,191,000	28,000
Installment agreement	2,980,000	-	80,000	2,900,000	85,000
Certificates of participation	1,919,000	-	24,800	1,894,200	25,700
State Revolving Fund Loan	4,221,803	-	253,824	3,967,979	260,423
Compensated Absences	97,450	90,000	87,876	99,574	79,574
Total	\$ 16,366,253	\$ 90,000	\$ 873,500	\$ 15,582,753	\$ 643,697

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 \$35 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, 2011

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 except for the contract settlements incurred in fiscal 2011.

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

	Year Ended 6/30/2011	Year Ended 6/30/2010
Unpaid claims, beginning of fiscal year	\$ 54,592	\$ 134,924
Incurred claims (including IBNRs)	1,065,000	42,217
Claim payments	(20,395)	(122,549)
Unpaid claims, end of fiscal year	<u>\$1,099,197</u>	<u>\$ 54,592</u>

The City has settled through arbitration two claims relating to construction of public improvements wherein the \$1,065,000 reported as incurred represents the amounts agreed to by all parties as the final amounts payable as construction costs under the previously disputed contractual arrangements.

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.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

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 15.859 percent of covered payroll and 27.467 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>				
	6/30/09	\$ 463,350	100%	\$ -
	6/30/10	\$ 440,061	100%	\$ -
	6/30/11	\$ 402,016	100%	\$ -
<i>Safety employees</i>				
	6/30/09	\$ 338,283	100%	\$ -
	6/30/10	\$ 393,327	100%	\$ -
	6/30/11	\$ 358,548	100%	

E. Restricted Net Assets and Governmental Fund Balances

The \$ 6,320,030 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 \$6,320,030 for governmental activities, \$5,812,489 is restricted for housing and community development, \$125,782 is restricted for public safety, and \$381,759 is for streets and other purposes. The \$9,134,898 invested in capital assets net of related debt includes \$1,198,047 in unspent capital lease proceeds.

The fund balances of the City's governmental funds are essentially all restricted as to their availability for future uses except for the \$16,911 reported as nonspendable in the general fund.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information (Continued)

F 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, 2011, the City contributed \$ 10,000 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:

Annual required contribution (ARC)	\$ 158,000
Interest on net OPEB obligation	5,695
Adjustments to annual required contribution	<u>-</u>
Annual OPEB expense	163,695
Contributions made	<u>(10,000)</u>
Change in net OPEB Obligation	153,695
Net OPEB Obligation, beginning of year	<u>134,000</u>
Net OPEB Obligation, end of year	<u>\$ 287,695</u>

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.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information (Continued)

F. Post Employment Benefits Other Than Pensions (Continued)

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.

G. Changes in Accounting Principle

Governmental Fund Balance Reporting

As required by Governmental Accounting Standards Board Statement 54, titled Fund Balance Reporting and Governmental Fund Type Definitions, the City in fiscal 2011, implemented the provisions of the standard that requires the classification of governmental fund type fund balances into various categories based primarily upon the constraints governing the use of the resources within such funds. Implementation of this standard had no impact upon beginning of year net assets or fund balances of the City's governmental fund types.

H. Short Term Non-Capital Financing

The City in fiscal year 2011 issued and retired during fiscal year 2011 a Tax and Revenue Anticipation Note having a principal balance of \$1,465,000. Principal and interest was paid by the City's general fund.

I. Subsequent Events

The City on July 7, 2011 obtained a 40 year USDA Loan issued as a Certificate of Participation for \$3,750,000 for the purpose of financing water system improvements. On July 7, 2011, the city also issued a 2011-2012 Tax and Revenue Anticipation Note for \$1,415,000 having a maturity date of June 29, 2012.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2011

J. Governmental Activities Unrestricted Deficit, General Fund Balance, Water and Wastewater Funds.

The City's general fund has suffered recurring net decreases in its net assets over the last three fiscal years which when aggregated exceed a cumulative decline in excess of \$1.7 million. The general fund has reported over \$6.7 million in expenditures for major capital asset improvements over this same period of time. While 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 this three year period. In addition, this is the same time period in which the national economy slowed and the City experienced lower revenue growth in its tourism based economy. These economic factors impacted the general fund main sources of revenues, its property tax revenues, sales taxes and transient occupancy taxes.

As a result, the City's governmental activities reported a net \$601,181 unrestricted deficit at June 30, 2011. This deficit is the June 30, 2011 general fund balance of \$16,911 plus the \$147,278 unrestricted net assets in the City's internal service fund less additional unfunded obligations \$765,370 for compensated absences, other claims and the OPEB retiree medical obligations. The City had no net unrestricted funds available for its use at June 30, 2011 in its governmental funds. A large part of the spending in the general fund was of a nonrecurring nature for legal fees connected with construction contract disputes and ultimate payments to settle construction costs.

To address cash flow management concerns, the City borrowed \$1,465,000 under a Tax and Revenue Anticipation Note (TRANS) that must be repaid by June 29, 2012. This is the second consecutive year in which the City has used such a financing arrangement to meet and manage its cash flow needs in its governmental funds.

The City's water and wastewater enterprises had \$13,564 in cash available at June 30, 2011, and both funds in the aggregate borrowed or were subsidized by the City's general fund in an aggregate amount of about \$860,000. These subsidies were made to cover unusual and significant legal and consulting fees in regard to certain water related activities. The water enterprise in July 2012 obtained a federally funded loan of \$3,750,000 for funding of water enterprise improvement projects.

The City Council has adopted the following financial management plan in order to address the general fund deficit and the cash positions in its water and wastewater funds, In the 2012 budget amendments, the City has reduced general fund spending by leaving vacant positions open, requiring employees to pay the employee share of employee retirement contributions and a percentage of medical health benefits. The City will be reviewing the current rates for both water and wastewater, and provide recommendations to address the general fund subsidies to the wastewater enterprise in fiscal 2012. It is anticipated with these measures being taken that the general fund will generate more revenues than expenditures by the end of fiscal year 2012.