

City of Calistoga California



**Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2009**

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009

Prepared By the Department of Administrative Services

INTRODUCTORY SECTION

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009

Table of Contents

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

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009

Table of Contents

REQUIRED SUPPLEMENTAL INFORMATION SECTION

Budgetary Comparison Schedule - General Fund	39
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	40
Budgetary Comparison Schedule-HOME Grant Fund	41
Budgetary Comparison Schedule - CDBG Open Grants Fund	42
Budgetary Comparison Schedule-Community Pool Fund	43

SUPPLEMENTAL SECTION

Combining Statements and Individual Fund Schedules-Nonmajor Funds:

Combining Balance Sheet Nonmajor Governmental Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	46
Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budgetary Basis) Nonmajor Governmental Funds	
Gas Tax Fund	48
Parking Ordinance Fund	49
Public Safety Fund	50
CDBG Loan Repayment Fund	51
Palisades L&M Fund	52
Asset Forfeiture Fund	53
Affordable Housing Fund	54
Quality of Life Fund	55
Silverado L&M Fund	56
Abandoned Vehicle Fund	57

CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009

Table of Contents

SUPPLEMENTAL SECTION(CONTINUED)

Traffic Signal Fund	58
Northwest Drainage Fund	59
Recreation Donation Fund	60
Police Donation Fund	61
Police Grant Fund	62
Tree Mitigation Fund	63
Fire Donation Fund	64
Mobile Home Park Fund	65
City Debt Service Fund	66
Capital Assets Used In Governmental Activities	
Comparative Schedule of General Capital Assets By Source	67
Schedule of Changes in General Capital Assets By Source	68
Schedule of General Capital Assets By Function and Activity	69
Schedule of Changes in General capital Assets By Function and Activity	70

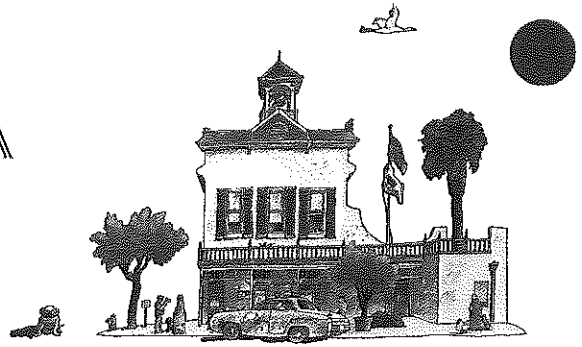
**CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009**

Table of Contents

STATISTICAL SECTION	<u>Schedule</u>	<u>Page</u>
FINANCIAL TRENDS INFORMATION:		
Schedule of Net Assets by Component -Last Six Fiscal Years	1	71
Schedule of Changes in Net Assets - Last Six Fiscal Years	2	72
Schedule of Fund Balances All Governmental Funds - Last Six Fiscal Years	3	74
Schedule of Revenues, Expenditures and Changes in Fund Balances and Debt Service Ratio -Last Six Fiscal Years	4	75
REVENUE CAPACITY INFORMATION:		
Transient Occupancy Tax Revenue Base Data-Last Six Fiscal Years	5	76
Principal Transient Occupancy Tax Payers-In Alphabetical Order-Last Six Fiscal Years	6	77
DEBT CAPACITY INFORMATION		
Ratio of Outstanding Debt By Type-Last Six Fiscal Years	7	78
Direct and Overlapping Governmental Activities Debt - Current Year	8	79
Legal Debt Margin - Last Six Fiscal Years	9	80
DEMOGRAPHIC AND ECONOMIC INFORMATION		
Demographic and Economic Statistics - Last Ten Fiscal Years	10	81
Principal Employers - Current Fiscal Year	11	82
OPERATING INFORMATION		
Number of Full Time Equivalent City Employees - Last Six Fiscal Years	12	83
Operating Indicators - Last Six Fiscal Years	13	84
Capital Asset Statistics - Last Six Fiscal Years	14	85

CITY OF CALISTOGA

1232 Washington Street • Calistoga, CA 94515
707.942.2800



March 26, 2010

To Citizens of the City of Calistoga and

The Honorable Mayor, Members of the City Council

We hereby submit the Comprehensive Annual Financial Report of the City of Calistoga for the fiscal year ended June 30, 2009. The fiscal year covers financial transactions from July 1, 2008 to June 30, 2009 on a modified or full accrual basis, depending on the fund type. The City follows a policy of preparing a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America after the end of each fiscal year. An independent licensed certified public accounting firm audits these financial statements.

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

Auditor's Report Summary

Terry E. Krieg CPA, a licensed certified public accounting firm, has audited the City of Calistoga's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Calistoga for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Mr. Krieg has concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Calistoga's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with U.S. generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

Comprehensive Annual Financial Report (CAFR)

This CAFR contains financial information and data using the new financial reporting format established for governments by the Governmental Accounting Standards Board (GASB). The GASB sets accounting and financial reporting standards for governments in the United States of America. The financial reporting standards require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Calistoga's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY AND ITS OPERATIONS

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

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

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

The City of Calistoga is located about 75 miles north of San Francisco in the northern part of Napa County. The City is approximately 2.6 square miles with an estimated population of 5,331 as of January 1, 2009. However, an additional surrounding population of 2,000 to 3,000 is considered part of the greater Calistoga community. The 2000 US Census reflects an ethnic diversity with 55% of the population white, 38% Hispanic and 7% other non-white. The median age was 38.1 years and almost 30% of the population is over 55 years. The median income was \$44,320 with an estimated 29% employed in management, professional or related occupations, 23% in services, 21% in sales or office and 27% in other occupations. An estimated 78% have a high school education and 29% have a bachelor's degree or higher. Of the 2,042 housing units an estimated 27%, or 555, are mobile homes. The City has a diverse population with income, housing and employment reflecting a tourist, wine producing and retirement community.

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

DISCUSSION OF FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

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

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

Budget

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

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

Long-Term Financial Planning

The City, in fiscal 2010, expects the local economy to continue to feel the impact of the downturn in the State and National economies. However, with the local growth limitations in the community, there will still be a small amount of residential and commercial development. It is expected that there will be slight revenue growth from transient occupancy and sales taxes. Potential planned improvements and rehabilitation of existing lodging facilities and the addition of new facilities will likely be delayed due to the difficulty in obtaining commercial credit. The broad effects of the deepening recession on the national, state and Bay Area economy and


unemployment have impacted the tourist activity in the Napa Valley which will weaken or reduce revenues to the City that are based on those sources. Property taxes will also continue to flatten or decrease slightly in 2010. While the subprime collapse had a very limited effect on property values in the City in past years, there will likely be a weakening in annual growth projections due to the economic factors above and revaluations of properties by the Napa County Assessor. The City has a very stable property valuation base due the growth management in the General Plan and Growth Management program and the nature of the community housing stock and ownership. The longer term impact of the recession and the State and Federal stimulus programs on the City's revenues is difficult to gage at this time. However, even with the economic cautions, a conservative projection of slight growth in the primary General Fund revenue sources should be sufficient to fund the projected growth in general municipal operations.

The City has adopted water and wastewater system improvement plans that will need to be reviewed and updated to project the future improvement needs of the utilities. Previous rate studies have resulted in adoption of multi year user rates and connection fees that were designed to adequately fund operations and needed improvements. However, the City will need to carefully review the operations of the water and wastewater systems and update the projections and rates in the next year. The City also will need to do a comprehensive review of all fees for services to insure recovery of the costs to provide the services to the users. The City needs to develop a comprehensive capital improvement plan (CIP) that identifies needed public improvements to support the community needs and projected growth identified in the adopted General Plan. To fund current and future capital improvements, the City will need to develop additional funding sources from grants, long term debt financing and development impact fees.

Staff Contributions

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

Respectfully submitted,



James C. McCann
City Manager



William M. Mushallo
Administrative Services Director/City Treasurer

**City of Calistoga, California
Principal City Officials
As of June 30, 2009**

Elected Officials

City Council

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

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

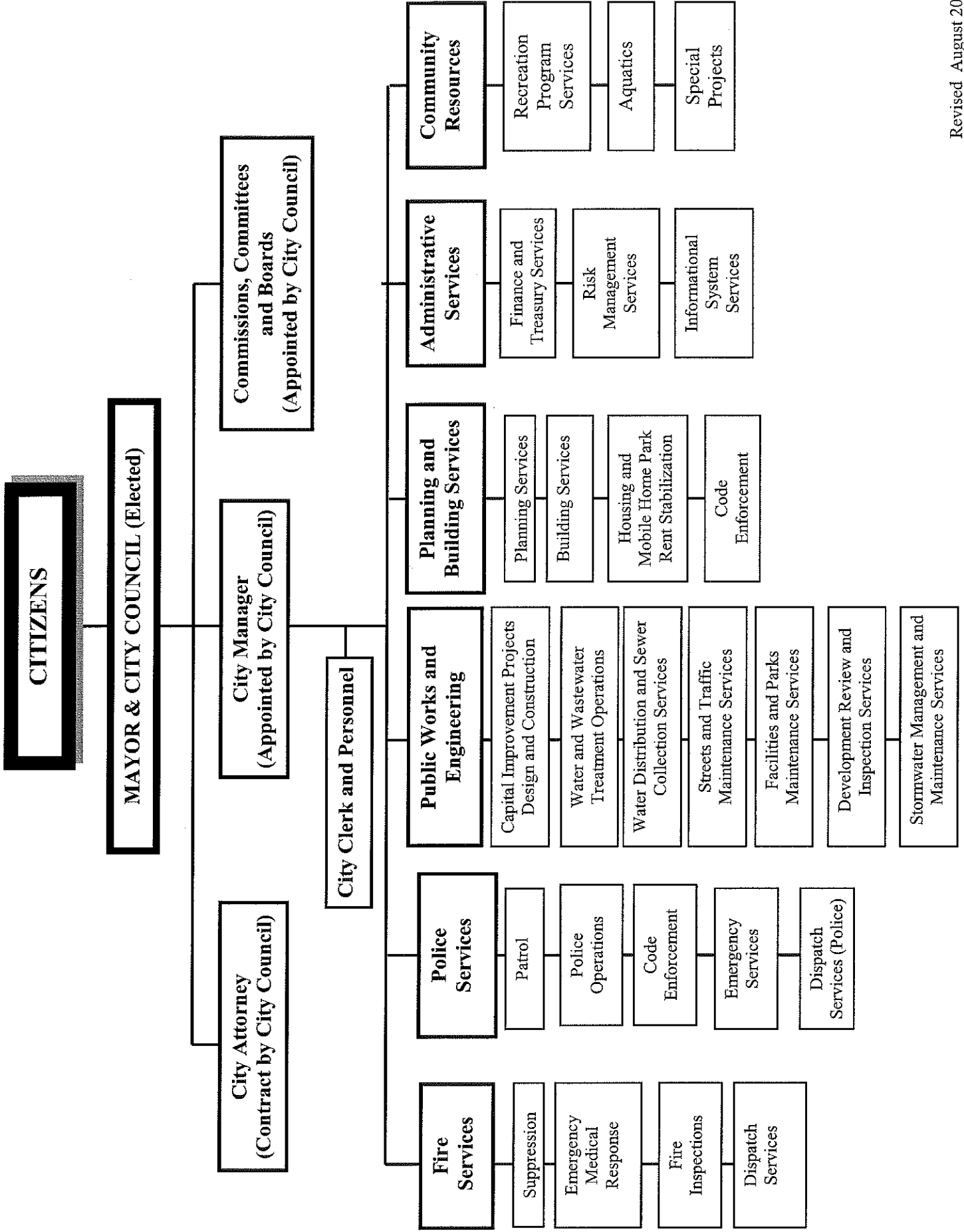
Appointed Officials

City Management Staff

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

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

CITY OF CALISTOGA ORGANIZATIONAL CHART



**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, (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Calistoga's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calistoga, California, as of June 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 11 and pages 39 through 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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

In accordance with Government Auditing Standards, I have also issued my report dated March 20, 2010 on my consideration of the City of Calistoga's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.


Certified Public Accountant
March 20, 2010

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, 2009. Please read it in conjunction with the City's audited financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's fiscal 2009 total net assets increased by nearly \$4.0 million over fiscal 2008 after conducting all City operations and programs. The assets of the City exceeded its liabilities by about \$29 million at the end of the 2008 fiscal year. Of that amount, there is an overall surplus of \$.7 million (the unrestricted net assets) is available to meet the City's ongoing obligations and operating expenses for the next fiscal year. About 78 % of the City's net assets are invested in capital assets such as the water and wastewater system.
- Overall City-wide revenues from all governmental and business-type activities increased by about \$1.3 million compared to the 2008 fiscal year for a 2009 total of about \$14.6 million. All of the increase was related to governmental activities; and was primarily due to capital projects funded from grants and contributions and increases in Property tax revenues. Business-type activity revenues were down about \$.4 million from the prior year due primarily to lower charges for services in the Water Utility. Total business-type revenues approximated \$ 4.2 million.
- The City's total expense of all programs in fiscal 2009 increased by about \$1.0 million compared to the 2008 fiscal year for a 2009 total of about \$13.5 million.
- The General Fund reported a year end fund balance of \$1.4 million at the end of the 2009 year. Of that \$1.7 million, \$.4 million is not available and represents cash loans made to other funds; primarily to the City's special revenue funds to provide short term cash flow funding for capital improvements. This short term funding will be repaid in fiscal 2010 with planned current revenues and grants.
- The City business-type water and wastewater enterprise funds ended the 2008 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).
- During fiscal 2008, an additional major fund, Capital Lease Projects, was created to account for the issuance of \$ 4.7 million in capital lease obligations for the capital funding of the community pool, fire station, public works and recreation facilities. During the 2008 and 2009 fiscal years, approximately \$1.9 million was spent out of that fund primarily for construction of the community pool. Minor expenditures were also made for some of the other capital projects.
- The City's other non-major governmental funds ended 2009 with about \$ 1.6 million available for special purposes; primarily public safety capital, housing, and other special purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
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	<ul style="list-style-type: none"> > Statement of net assets > Statement of activities 	<ul style="list-style-type: none"> > Balance sheet > Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> > 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 report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *the entire City's* assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The City has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's combined net assets increased by about \$ 4.0 million between fiscal years 2008 and 2009 to \$ 28.9 million. About 78% 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 22% is essentially represented by cash, investments and receivables. About 85% of the City's total liabilities are represented by long-term obligations.

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

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change
	2009	2008	2009	2008	2009	2008	2008 to 2009
Current and other assets	\$ 11.4	\$ 11.0	\$ 1.2	\$ 2.5	\$ 12.6	\$ 13.5	-6.6%
Internal balances	0.4	.4	(0.4)	(0.4)	-	-	0.0%
Capital assets	11.5	7.9	30.8	29.7	42.3	37.6	12.4%
Total assets	23.3	19.3	31.6	31.8	54.9	51.1	7.3%
Long-term debt outstanding	5.7	6.1	16.3	16.8	22.0	22.9	-3.9%
Other liabilities	2.5	2.1	1.5	1.2	4.0	3.2	23.3%
Total liabilities	8.2	8.2	17.8	18.0	26.0	26.1	-0.5%
Net assets							
Invested in capital assets	8.3	5.4	14.4	12.7	22.7	18.1	25.2%
Restricted	5.5	4.4	-	0.8	5.5	5.2	5.8%
Unrestricted	1.3	1.3	(0.6)	0.3	0.7	1.6	-56.3%
Total net assets	\$ 15.1	\$ 11.1	\$ 13.8	\$ 13.8	\$ 28.9	\$ 24.9	15.9%

Changes in net assets. The City's 2009 total revenues of about \$ 15.9 million was about \$ 2.6 million more than in 2008, a 19 % increase. This increase was the result of one time grants and increased property tax revenues received in 2009. During fiscal year 2009 about 39 % of the City's total revenue came from some type of taxes including property, sales, transient occupancy, and other taxes. The rest comes from fees charged for services, state/local/federal grants and contributions. The total cost of all programs and services in 2009 was about \$13.5 million and includes a wide range of services such as police and fire protection, streets, public works, general administration, community services, water, and wastewater operations. (See Table A-2).

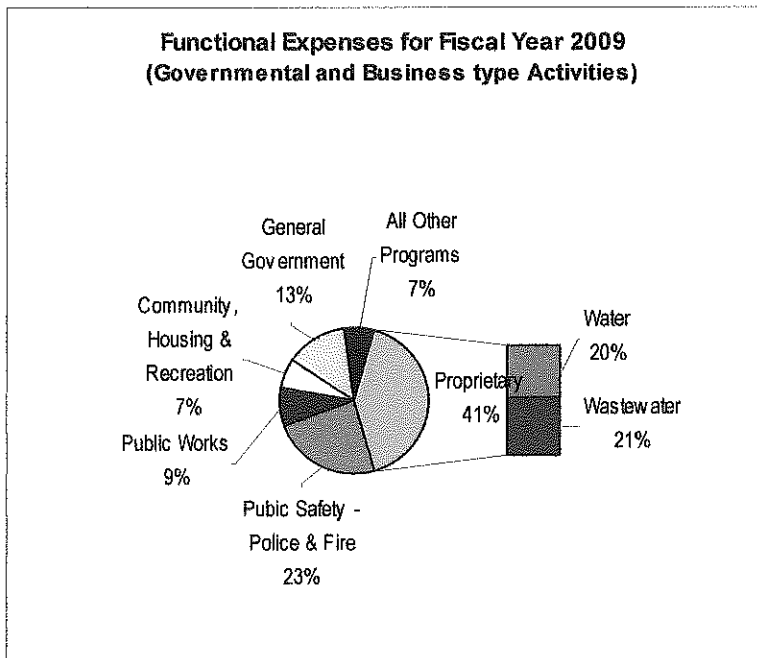
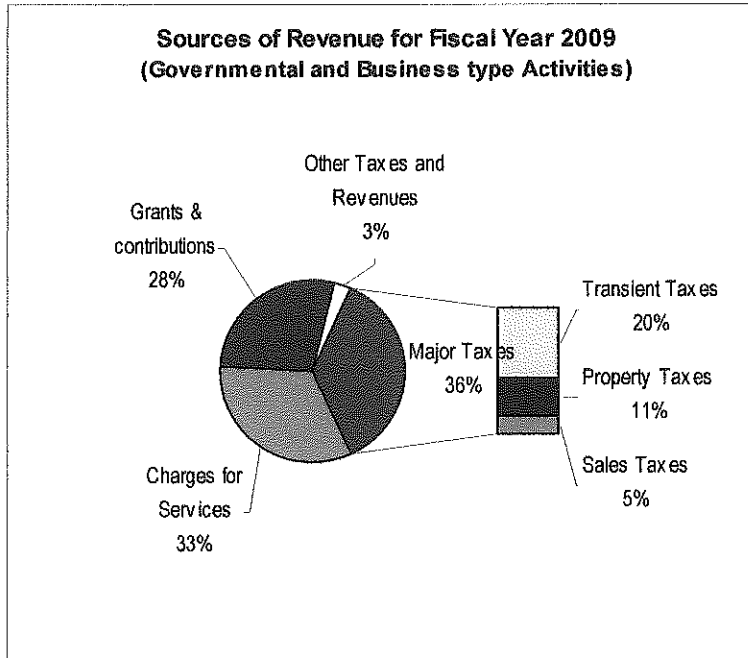
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-2
Changes in the City of Calistoga's Net Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change
	2009	2008	2009	2008	2009	2008	2008 to 2009
Revenues							
Program revenues							
Charges for services	\$ 1.1	\$ 1.1	\$ 4.1	\$ 4.6	\$ 5.2	\$ 5.7	-8.8%
Grants and contributions	2.0	1.3	1.5	0.1	4.5	1.4	221.4%
General revenues							
Transient occupancy taxes	3.2	3.4	-	-	3.2	3.4	-5.9%
Property, Sales and other taxes	2.9	2.7	-	-	2.9	2.7	7.4%
Other	0.1	0.1	-	-	0.1	0.1	0.0%
Total revenues	10.3	8.6	5.6	4.7	15.9	13.3	19.5%
Expenses							
General government	1.8	1.8			1.8	1.8	0.0%
Public safety	3.1	3.0			3.1	3.0	3.3%
Community services	0.3	0.2			0.3	0.2	50.0%
Housing	0.1	0.1			0.1	0.1	0.0%
Recreation services	0.5	0.4			0.5	0.4	25.0%
Public works	1.2	1.2			1.2	1.2	0.0%
Planning & Building	0.7	0.6			0.7	0.6	16.7%
Water	-	-	2.7	2.3	2.7	2.3	17.4%
Wastewater	-	-	2.9	2.7	2.9	2.7	7.4%
Other	0.2	0.2			0.2	0.2	0.0%
Total expenses	7.9	7.5	5.6	5.0	13.5	12.5	8.0%
Excess (deficiency) before transfers and Special Items	2.4	1.1	-	(0.3)	2.4	0.8	200.0%
Extraordinary item:							
Community pool donations	1.6	-	-	-	1.6	-	100.0%
Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Increase(decrease) in net assets	4.0	1.1	-	(0.3)	4.0	0.8	398.9%
Net assets, beginning	11.1	10.0	13.8	14.0	24.9	24.0	3.7%
Net assets, ending	\$ 15.1	\$ 11.1	\$ 13.8	\$ 13.7	\$ 28.9	\$ 24.8	\$ 16.5%

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 2009 increased about \$ 1.7 million to \$10.3 million compared to \$ 8.6 million in 2008. About 31 % of the revenue from governmental activities is derived from the Transient Occupancy tax (it is 48% of the only General Fund revenue). The City's Transient Occupancy tax revenue decreased by \$.2 million in 2009 primarily due to a softening in tourism activity. The City received increases in property tax allocations as a result of assessed valuation increases.

As the above graph shows, the City's primary sources of revenue come from charges for services and tax revenues. About 72% of all City revenues are from taxes, water sales, wastewater fees, and local charges for services. The majority of the City's operating expenses are incurred to provide public safety, water and wastewater services. These three programs account for about 64 % of the City's total operating expenses in fiscal 2009.

When all operations were concluded, the governmental activities function reported about a \$ 4 million increase in net assets for fiscal 2009. This amount primarily reflects an increase in grants, contributions, and donations revenue received for capital projects. Net assets of business type-activities were virtually unchanged year over year.

Table A-3 presents the cost of each of the City's five largest programs – public safety, public works, general administration, water and wastewater. The cost of all programs this year was \$ 13.5 million, compared to \$ 12.5 million in fiscal 2008; about a 7.8 % increase for the year. For governmental activities, program costs increased in 2009 by about \$ 1.0 million. Most of that increase relates to increases in the water and wastewater utilities.

Table A-3				
Cost of City of Calistoga Programs				
(in millions of dollars)				
	Total Cost of Services		Total Percentage Change	
	2009	2008	2008 to 2009	
Public Safety	\$ 3.1	\$ 3.0	3.3%	
General Government	1.8	1.8	0.0%	
Public Works	1.2	1.2	0.0%	
Water	2.7	2.3	17.4%	
Wastewater	2.9	2.7	7.4%	
All other	1.8	1.5	20.0%	
Total	\$ 13.5	\$ 12.5	8.0%	

Governmental Activities

Users and contributors funded \$ 4.1 million of the \$ 7.9 million in costs of city's governmental activity programs leaving the City general revenues to fund the other \$ 3.8 million. General revenues were sufficient to pay for these services. The expense of governmental services was absorbed by:

- Those who directly benefited from or used the programs (about \$1.1 million), and
- Other governments and organizations that subsidized certain programs with grants and contributions (about \$ 2.0 million). In addition, the City reported an extraordinary item of about \$1.6 million in donations received for the new community pool and facilities.

The City used general and tax revenues to pay the remaining operating costs which left a net assets increase of about \$ 4.0 million in the governmental activities.

Business-Type Activities

The City's business-type activities (water and wastewater) had virtually no change in net assets during the fiscal year. The water and wastewater activities both had cost increases from higher maintenance and operations in fiscal 2009 compared to the prior year, but had revenues to offset those increases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of about \$ 5.8 million, \$ 1.7 million lower than was reported at the end of fiscal year 2008. The costs of the City's General Fund operations were about \$ 3.1 million more than General Fund revenues. After transfers in and out, the General Fund reported a net \$.3 million decrease. This was primarily due to a combination of an increase in one time capital outlay expenses and lower than anticipated transient occupancy tax revenues.

At year end, the City's General Fund had a fund balance of about \$1.4 million. Of the \$ 1.4 million, about \$.4 million was not available for use as it represents cash advanced primarily to the City's special revenue funds to provide short term cash flow funding for capital improvements. In addition, the City's other major and nonmajor governmental funds ended the 2009 fiscal year with a combined fund balance of \$4.4 million which is to be used only for certain specific future purposes.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. 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 \$.4 million under budgeted amounts due primarily to significantly lower transient occupancy tax revenues. Actual General Fund expenditures were in line with final budget amounts when changes in capital project outlay are excluded. The General Fund expenditure budget changes from the original to final budgets were significant, due to changes in planned capital and operating project expenditures and revenues, and deteriorating general government revenues due to the soft economy.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had invested \$ 42.3 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 \$ 4.7 million, or about 12.5%, more than last year. This is primarily due to planned capital improvement projects, such as the Community Pool and water facilities improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-4
City of Calistoga's Capital Assets
 (net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Fiscal Year Totals		Total Percentage Change 2008 to 2009
	2009	2008	2009	2008	2009	2008	
Land	\$2.0	\$ 2.0	\$2.8	\$ 0.8	\$ 4.8	\$ 2.8	71.4%
Construction in progress	0.4	2.1	0.5	6.0	0.9	8.1	-88.9%
Buildings	0.5	0.5			0.5	0.5	0.0%
Machinery and equipment	0.2	0.2			0.2	0.2	0.0%
Internal service equipment	0.9	1.1			0.9	1.1	-18.2%
Improvements	7.5	2.0			7.5	2.0	275.0%
Water utility system			12.4	7.8	12.4	7.8	59.0%
Wastewater system			15.1	15.1	15.1	15.1	0.0%
Total	\$ 11.5	\$ 7.9	\$ 30.8	\$ 29.7	42.3	\$ 37.6	12.5%

This year's major capital assets additions included:

In fiscal 2009, the City expended about \$ 4.6 million on water system improvements and \$ 5.5 million on governmental related improvements. The water improvements were related to the water treatment plant upgrade and significant water main replacements. The governmental related improvements were primarily related to the community pool. The City has implemented infrastructure accounting and reporting to comply with financial reporting standards. The City has not recaptured the estimated and or historical costs of other major infrastructure assets put in service subsequent to fiscal year 1980 and prior to June 30, 2003. Under the national financial reporting standards, the City is not required to record such assets in its financial statements.

Long Term Debt

At the end of 2009, the City had about \$ 23.0 million in long-term debt and capital lease obligations outstanding, which is a net decrease of \$ 1.4 million from the prior year. Of the \$ 23.0 million, about 73% relates to the City's business-type activities, mainly the water and wastewater systems, and the remaining 27% is applicable to governmental type financing activities.

In the business-type activities of the \$16.8 million, about \$ 3.1 million is an installment loan agreement for wastewater system improvements, \$ 1.9 million in Certificates of Participation and a \$ 4.5 million state revolving loan obtained to provide financing for construction of the City's wastewater treatment plant facility. In 2006, the City refinanced the water revenue bonded debt of \$ 3.6 million and added \$ 2.0 million in a new installment loan agreement of \$ 5.3 million for water system improvements, which has \$ 4.8 million outstanding in 2009. In 2008, the City issued \$ 2.5 million in Certificates of Participation for water system improvements relating to Kimball reservoir, treatment plant and pipelines. The installment, certificate and loan payments are paid from service charges and other available resources of the water and wastewater systems as applicable.

The governmental-type activities includes long-term Lease debt of about \$.9 million in a capital lease entered into in prior years to retire prior debt used to build the City's current public safety facility and acquired Logvy Community Park. In 2008, the City entered into a \$100,000 equipment lease for replacement of public works vehicles. Also in 2008, the City issued \$ 4.7 million in a capital lease obligation for the funding of various community facilities, such as the community pool, fire station, public works facility and a new recreation center.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2010 fiscal year, general fund revenue projections continue to be conservative and based on known changes in on going revenues from taxes and one time capital grants.

- Overall General Fund ongoing revenues are projected to increase only slightly, less than 3%, over fiscal year 2009. This minimal increase is due to planned capital grants, property tax assessed valuation and revenue increases over the prior year and conservative projections regarding the impact of the economic downturns in 2010 and future years. There are no other significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City.
- Rate increases are proposed for the water and wastewater systems in fiscal 2010. It is also planned to review and adjust the development services and impact fees in 2010 to more fully recover costs and fees for new or expanded development impacts.
- The General Fund 2010 budgeted appropriations are adopted and revised at \$ 11.1 million, which \$3.8 million are capital improvements. This is a decrease of \$ 1.8 million or about 14 % compared to final 2009 appropriations of \$ 12.9 million. The majority of this decrease is due to the completion of the pool project in 2009. Another significant capital improvement project is planned in 2010 with the renovation of the fire station facility.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please see the City WEB site at www.ci.calistoga.ca.us 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, 2009

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,411,779	\$ 143,833	\$ 3,555,612
Net receivables	1,134,529	730,690	1,865,219
Internal balances	439,103	(439,103)	-
Inventory	8,591	-	8,591
Total current assets	<u>4,994,002</u>	<u>435,420</u>	<u>5,429,422</u>
Noncurrent assets:			
Restricted cash and cash equivalents	2,835,941	-	2,835,941
Receivables-long-term	3,904,247	-	3,904,247
Deposits for capital assets	29,742	-	29,742
Debt issuance costs	21,584	324,637	346,221
Net capital assets	<u>11,478,899</u>	<u>30,848,816</u>	<u>42,327,715</u>
Total noncurrent assets	<u>18,270,413</u>	<u>31,173,453</u>	<u>49,443,866</u>
Total assets	<u>\$ 23,264,415</u>	<u>\$ 31,608,873</u>	<u>\$ 54,873,288</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 338,251	\$ 557,929	\$ 896,180
Accrued liabilities	227,122	23,938	251,060
Contract retentions and penalties	744,053	-	744,053
Compensated absences	211,534	93,447	304,981
Deposits	196,878	129,523	326,401
Accrued interest payable	113,555	216,323	329,878
Claims and settlements	122,549	-	122,549
Bonds, leases, agreements, notes and certificates due in one year	<u>345,283</u>	<u>526,192</u>	<u>871,475</u>
Total current liabilities	<u>2,299,225</u>	<u>1,547,352</u>	<u>3,846,577</u>
Noncurrent liabilities:			
Compensated absences	128,000	20,000	148,000
Claims and settlements	12,375	-	12,375
Bonds, leases, agreements, notes and certificates due in more than one year	<u>5,720,828</u>	<u>16,268,803</u>	<u>21,989,631</u>
Total noncurrent liabilities	<u>5,861,203</u>	<u>16,288,803</u>	<u>22,150,006</u>
Total liabilities	<u>8,160,428</u>	<u>17,836,155</u>	<u>25,996,583</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,300,018	14,378,458	22,678,476
Restricted for:			
Streets, recreation, capital projects	89,732	-	89,732
Public safety	771,552	-	771,552
Housing and community development	4,620,545	-	4,620,545
Unrestricted	<u>1,322,140</u>	<u>(605,740)</u>	<u>716,400</u>
Total net assets	<u>15,103,987</u>	<u>13,772,718</u>	<u>28,876,705</u>
Total liabilities and net assets	<u>\$ 23,264,415</u>	<u>\$ 31,608,873</u>	<u>\$ 54,873,288</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	HOME Grant Fund	CDBG Open Grant Fund	Community Pool Fund	Capital Lease Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$ 1,343,415	\$ 12,424	\$ 254,454	\$ 1,900	\$ 2,835,941	\$ 1,612,992	\$ 6,061,126
Taxes receivable	605,590	-	-	-	-	-	605,590
Accounts receivable	37,842	-	-	-	-	14,655	52,497
Due from other governments	207,106	-	-	-	-	62,186	269,292
Accrued interest receivable	5,120	-	-	-	-	-	5,120
Special assessments receivable	197,121	-	-	-	-	-	197,121
Internal balances-due from other funds	447,767	-	-	-	-	-	447,767
Notes receivable	-	1,806,032	1,250,586	-	-	847,629	3,904,247
Total assets	\$ 2,843,961	\$ 1,818,456	\$ 1,505,040	\$ 1,900	\$ 2,835,941	\$ 2,537,462	\$ 11,542,760
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 297,575	\$ 6,200	\$ -	\$ -	\$ -	\$ 30,135	\$ 333,910
Contract retentions payable	379,553	-	-	-	-	-	379,553
Contract liquidated damages payable	364,500	-	-	-	-	-	364,500
Accrued liabilities	227,122	-	-	-	-	-	227,122
Internal balances-due to other funds	-	6,224	254,267	1,900	-	38,081	300,472
Deposits	185,988	-	-	-	-	10,890	196,878
Deferred revenue	-	1,806,032	1,250,586	-	-	847,629	3,904,247
Total liabilities	1,454,738	1,818,456	1,504,853	1,900	-	926,735	5,706,682
Fund balances:							
Reserved	447,767	-	-	-	-	-	447,767
Unreserved, designated for:							
Contingencies and emergencies	778,500	-	-	-	-	-	778,500
Claims	75,900	-	-	-	-	-	75,900
Capital projects	87,056	-	-	-	2,835,941	-	2,922,997
Unreserved undesignated:							
Unreserved reported in nonmajor special revenue funds	-	-	187	-	-	-	187
Total fund balances	1,389,223	-	187	-	2,835,941	1,610,727	5,836,078
Total liabilities and fund balances	\$ 2,843,961	\$ 1,818,456	\$ 1,505,040	\$ 1,900	\$ 2,835,941	\$ 2,537,462	\$ 11,542,760
Total Governmental Fund Balances							\$ 5,836,078
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							10,537,355
Long-term receivables used in governmental activities are not current financial resources and are therefore deferred in the funds							3,904,247
The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets							920,727
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							(6,094,420)
Net Assets of Governmental Activities							\$ 15,103,987

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, 2009

	<u>General Fund</u>	<u>HOME Grant Fund</u>	<u>CDBG Open Grant Fund</u>	<u>Community Pool Fund</u>	<u>Capital Lease Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Property taxes	\$ 1,709,998	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,709,998
Sales taxes	842,610	-	-	-	-	-	842,610
Transient occupancy taxes	3,208,611	-	-	-	-	-	3,208,611
Other taxes	311,292	-	-	-	-	-	311,292
Licenses and permits	89,315	-	-	-	-	-	89,315
Fines and forfeits	49,810	-	-	-	-	-	49,810
Intergovernmental	926,936	1,829,632	-	-	-	227,548	2,984,116
Interest and rents	24,231	-	839	30	35,636	26,316	87,052
Charges for services	557,320	-	-	-	-	224,280	781,600
Special assessments	197,122	-	-	-	-	-	197,122
Miscellaneous	38,655	-	-	-	-	160,306	198,961
Total revenues	7,955,900	1,829,632	839	30	35,636	638,450	10,460,487
EXPENDITURES							
Current:							
General government	1,581,229	-	-	-	-	-	1,581,229
Public safety	3,050,445	-	-	-	-	56,713	3,107,158
Community services	272,543	-	-	-	-	-	272,543
Housing	-	1,830,856	652	-	-	51,879	1,883,387
Recreation services	393,100	-	-	850	-	17,747	411,697
Public works	1,025,296	-	-	-	-	37,283	1,062,579
Planning and building	694,241	-	-	-	-	-	694,241
Debt service:							
Principal	120,146	-	-	-	-	222,140	342,286
Interest	4,854	-	-	-	-	324,538	329,392
Capital outlay	3,997,786	-	-	-	-	-	3,997,786
Total expenditures	11,139,640	1,830,856	652	850	-	710,300	13,682,298
Excess (deficiency) of revenues over expenditures	(3,183,740)	(1,224)	187	(820)	35,636	(71,850)	(3,221,811)
OTHER FINANCING SOURCES (USES)							
Transfers in	3,041,798	12,424	-	1,900	-	565,686	3,621,808
Transfers out	(179,470)	-	-	(1,596,804)	(979,133)	(964,655)	(3,720,062)
Total other financing sources (uses)	2,862,328	12,424	-	(1,594,904)	(979,133)	(398,969)	(98,254)
EXTRAORDINARY ITEM:							
Contributions for Community Pool	-	-	-	1,597,624	-	-	1,597,624
Net change in fund balances	(321,412)	11,200	187	1,900	(943,497)	(470,819)	(1,722,441)
Fund balances, July 1	1,710,635	(11,200)	-	(1,900)	3,779,438	2,081,546	7,558,519
Fund balances, June 30	\$ 1,389,223	\$ -	\$ 187	\$ -	\$ 2,835,941	\$ 1,610,727	\$ 5,836,078

See accompanying notes to the basic financial statements