

A report from the
Financial Oversight Committee
on
Flood Protection Projects
in
Napa County
July 2006

Citizens of Napa County,

It has been just over eight years since Measure A for Flood Protection was approved by two-thirds of Napa County voters. The half-cent sales tax provides the local share for flood protection efforts and other watershed improvement projects for all the municipalities and unincorporated Napa County.

The 1998 ballot measure also created a Financial Oversight Committee (FOC) to monitor collection and distribution of the tax and ensure that costs paid are authorized. As part of its function, the FOC produces this publication each year to provide information on Flood Protection sales tax revenue and expenditures, budget changes, and other items of interest to the public. The FOC reviews and approves an annual audit, which is also included here. All of the information in this publication, along with the complete text of Measure A for Flood Protection, is available on the website at www.napaflooddistrict.org.

The FOC meets quarterly and is currently composed of representatives of the agricultural industry, environmental community, business community, Friends of the Napa River, and other organizations. Meetings are open to the public and are held at the Flood Control District conference room at 804 First Street in Napa. Upcoming meetings will be held at 5:30pm on September 6 and November 4. If you are interested in serving as a member of the FOC, please contact the Flood Control District at 707-259-8600.

The members of the Financial Oversight Committee hope this publication provides useful information on the fiscal aspects of flood control projects funded by Measure A.

Sincerely,
Carl Ebbeson
Chairman, Financial Oversight Committee

ANSWERS TO COMMON QUESTIONS

Q: How is the half-cent sales tax spent?

A: The County of Napa and each City or Town in the County receives a proportionate share of the Flood Protection sales tax revenues. Each of these entities may use its share to build approved projects for flood protection and watershed maintenance. A list of approved projects is found in sections seven and eight of the Measure A ordinance.

Q: How is the Flood Protection sales tax revenue divided among these entities?

A: Using 1996 as the base year, a Joint Powers Agreement established the percentage of revenues each entity would receive. The percentages were based on actual proportionate sales tax shares. The starting percentages for the first seven (7) years of Measure A were set to be:

City of Napa: 66.6%

City of St. Helena: 11.5%

Unincorporated Napa County: 9.6%

City of American Canyon: 6.7%

City of Calistoga: 3.3%

Town of Yountville: 2.3%

The Joint Powers Agreement requires the County Auditor-Controller to review the percentage shares twice during the term of Measure A (1998 to 2018) and describes the method and timing of the reviews. After review, the share percentages may be adjusted to ensure that each entity is receiving revenues proportionate to their sales tax generation.

"Chart 1: Sales Tax Distributions as of June 30, 2005" provides detailed figures showing distributions to each entity from the first year of Measure A (1998-99) through the most recent year for which audited figures are available (2004-05.) These are the sales tax revenues for each entity listed.

Chart 1 - Sales Tax Distributions as of June 30, 2005
NAPA COUNTY FLOOD PROTECTION AND WATERSHED IMPROVEMENT AUTHORITY
SALES TAX DISTRIBUTIONS

FISCAL YEAR	CITY OF NAPA & VICINITY	CITY OF AMERI- CAN CANYON	CITY OF CALISTOGA	CITY OF ST. HELENA	TOWN OF YOUNT- VILLE	COUNTY OF NAPA	TOTAL
Total for 1998-1999	4,184,868.35	207,501.59	102,202.27	356,375.20	71,231.89	297,531.47	5,219,710.77
Total for 1999-2000	7,187,190.29	161,476.90	110,267.73	384,482.05	76,853.26	320,994.59	8,241,264.82
Total for 2000-2001	7,728,609.92	190,749.00	127,374.58	289,096.83	88,776.22	329,720.87	8,754,327.42
Total for 2001-2002	4,981,335.93	168,754.80	130,000.10	453,246.36	90,606.12	295,883.19	6,119,826.50
Total for 2002-2003	11,009,276.65	74,407.33	124,346.87	433,545.72	86,665.99	45,839.48	11,774,082.04
Total for 2003-2004	2,144,493.50	145,264.03	17,863.71	(919,989.18)	(314,715.78)	(180,203.28)	892,713.01
Total for 2004-2005	(3,708,175.06)	258,472.75	124,906.69	(94,800.24)	48,052.27	370,180.52	(3,001,363.07)

UNSPENT SALES

TAX BALANCE \$33,527,599.58 \$1,206,626.40 \$736,961.95 \$901,956.74 \$147,469.97 \$1,479,946.84 \$38,000,561.48

*Negative yearly totals are due to use of funds for projects. No funds have been expended beyond the cumulative total collected for each entity.

Note: Entities do not typically expend all of a given year's funds in that year but may bank funds in preparation for major projects. Unspent City of Napa funds are committed to specific uses.

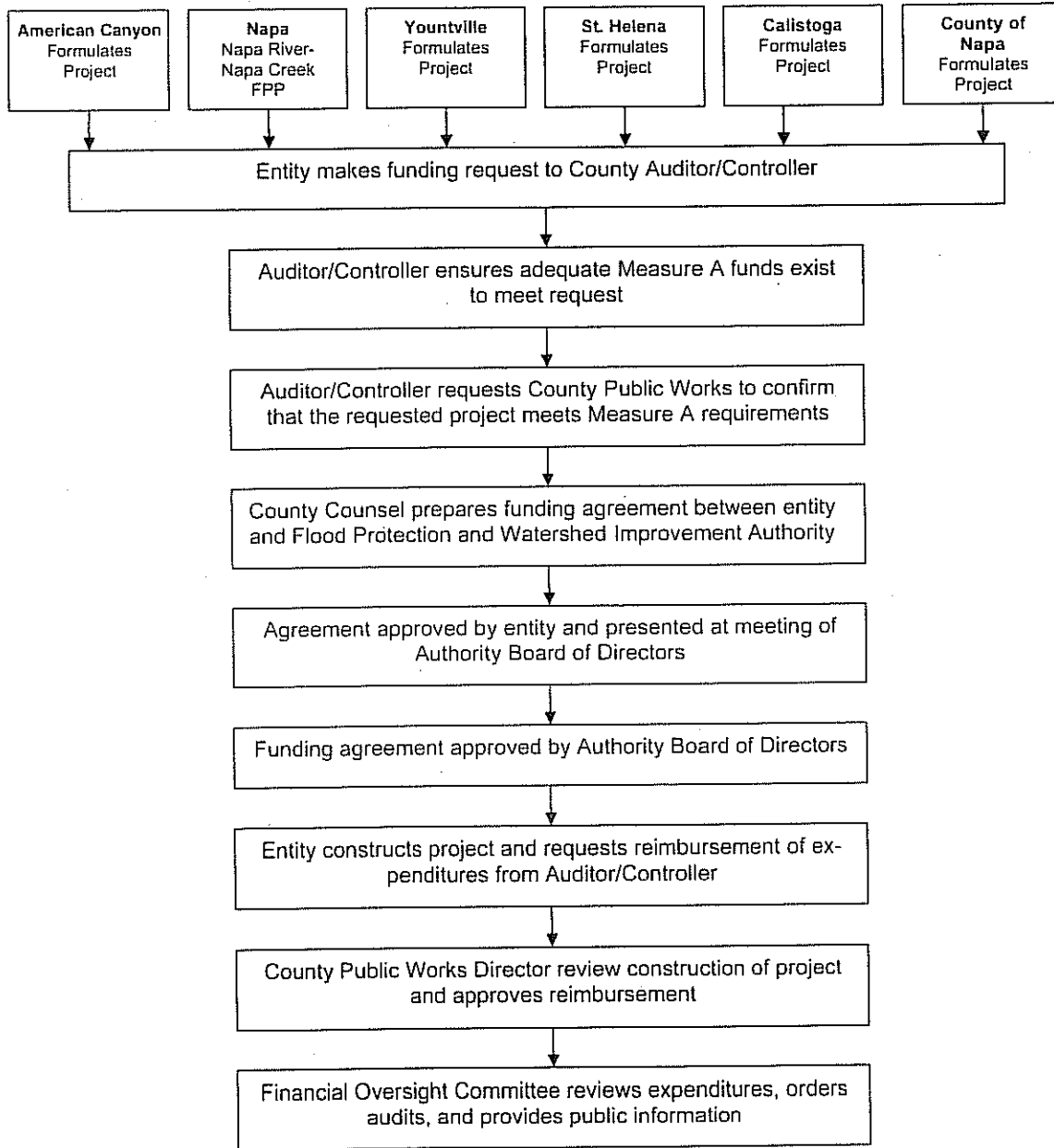
Q: Who is responsible for seeing that Measure A funds are spent appropriately?

"Chart 2: Flood Protection Funding Flow Chart" illustrates the process of approving expenditures. The Napa County Flood Protection and Watershed Improvement Authority (NCFPWIA or Authority), which is made up of the Napa County Board of Supervisors, was created by Measure A to administer the sales tax ordinance.

Q: How do Measure A sales tax actual collections compare to projections that were made prior to 1998?

A: Measure A revenues have been greater than anticipated. The additional revenue has allowed the Flood Control District to absorb unanticipated costs and cope with the rapid increase in property values and costs of relocations required related to the City of Napa Project.

Chart 2: Flood Protection Funding Flow Chart



"Chart 3: Measure A Sales Tax – Actual collection compared to projections" provides detailed figures.

Chart 3: Measure A Sales Tax – Actual collection compared to projections

Sales Tax Collections Year	Original Estimate	Actual Receipts	Increase
1998/1999	\$ 6,813,000	\$ 7,170,000	5.24%
1999/2000	\$ 7,018,000	\$ 10,050,000	43.20%
2000/2001	\$ 7,228,000	\$ 10,299,000	42.49%
2001/2002	\$ 7,445,000	\$ 10,694,000	43.60%
2002/2003	\$ 7,669,000	\$ 10,414,000	35.80%
2003/2004	\$ 7,899,000	\$ 12,093,000	53.10%
2004/2005	\$ 8,136,000	\$ 11,545,000	41.91%

Q: When does the Flood Protection sales tax end?

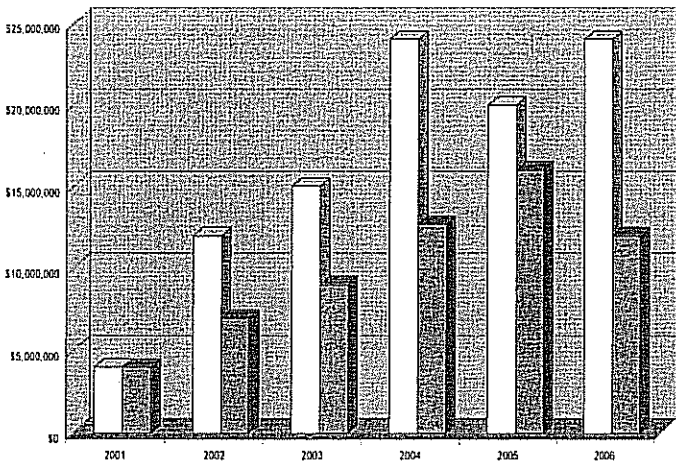
A: The Measure A ordinance established a 20 year period for the half-cent sales tax, from 1998 to 2018.

Q: Measure A provides the local share of flood protection projects, but what about funding from the state and federal governments?

Federal Funding: For the City of Napa Project, the federal government funds flood protection through allocations to the Corps of Engineers (COE). Allocations vary from year to year. Over six fiscal years of construction, the COE has requested \$99 million for the Napa Project, but the White House and Congress have allocated only about \$60 million. These shortfalls have caused delays in construction of the Project. "Chart 4: COE Funding History" shows the year-to-year capability versus allocation.

Chart 4: COE Funding History

Legend: □ COE Capability, ■ Fiscal Allocation

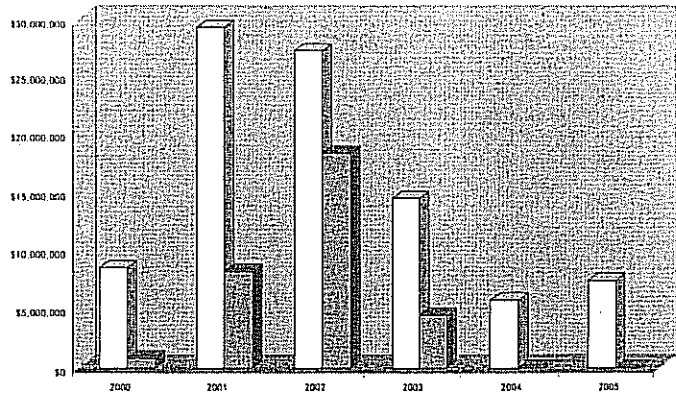


The COE requested funding for FY 2007 is \$22.6 million for the City of Napa Project. The final allocation will be known in the fall of 2006.

State Funding: Funding for the City of Napa Project from the State of California is provided through the Subvention Fund for Flood Control. This program reimburses the local sponsor of a federally-authorized flood project up to 70% of local costs for land acquisition and relocations of utilities and structures. To date, the Napa Flood District as the local sponsor has submitted \$108 million in claims for Subvention Fund reimbursements, but has only received \$32 million in reimbursements. The budget problems at the state level have resulted in lack of funding for the subvention program since 2003. "Chart 5: Subvention Reimbursement History" shows the year-to-year claims versus reimbursements.

Chart 5: Subvention Reimbursement History

Legend: □ Claims, ■ Paid



Q: What is the status of flood protection work using Measure A funds in other areas of Napa County?

A: The Town of Yountville completed a Flood Barrier Project in December 2004. This project had a total cost of about \$6 million, on track with cost projections, and was funded by a variety of sources including Measure A, FEMA grants, bond proceeds, Town General Fund monies, and property owner contributions. The City of St. Helena Comprehensive Flood Project continues in the planning and engineering phase. \$2,040,289.26 in Measure A funds have been spent to date. The City of Calistoga's Kimball Water Treatment Plant Maintenance Dredging Project is being conducted using \$106,901.41 of the City's Measure A funds. American Canyon is implementing a Flood Control and Storm Drain master Plan and has spent \$506,671.85 of Measure A funds to date. Napa County receives Measure A funds for use in the unincorporated areas of the County. To date, Napa County has expended \$976,438.52 of its Measure A funds for the Silverado Trail Flood Protection Feasibility study evaluating elevation of the roadway, and on the Lewelling Avenue Drainage Outfall Project, which installed a new and larger storm drain reducing flood damage to businesses and highway users. All amounts are as of June 30, 2005.

Q: Are expenditures on track with initial estimates?

The City of Napa Project was the only Project with a schedule and cost estimate at the time of the Measure A vote in March 1998. There have been five (5) budget revisions approved by the Flood District Board of Directors since establishment of the original budget. These revisions were approved in October 1998, July 2001, July 2002, July 2003 and June 2004. Total estimated costs for the City of Napa Project have increased approximately 64.5%. There have been no significant changes to the scope of the Project to date. Increased costs are primarily due to unexpected rapid increases in land values during property acquisition, modifications to earlier designs for railroad relocation and bridge replacements, identification of additional utilities requiring relocation, and cleanup of contamination discovered during construction.

Q: Are shortfalls expected?

Chart 3 shows local revenue for all entities from Measure A exceeds estimates. Prior to the start of new projects, each entity compares accumulated funds in their account to projected expenditures. Alternative funding sources are sought to cover any difference between funds on hand and expenditures. If necessary, projects can be delayed until accumulated revenues cover anticipated costs.

In terms of the Napa Project, charts 4 and 5 show shortfalls in federal and state funding. Federal shortfalls have delayed Project construction to date and future shortfalls in federal funding may cause additional delays. Delayed reimbursements from the state Subvention Fund for Flood Control have created uncertainty over the past year in the near-term cash flow situation for the Flood District. Recent positive developments during the state budget process for FY 2007 indicate Subvention Fund reimbursements will resume in time to avoid impacts to District cash flow. Additional funds for Subvention reimbursements are included in a State bond measure which will be subject to voter approval on the November 2006 ballot.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**
(A Component Unit of the County of Napa, California)
COMPONENT UNIT FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The Financial Oversight Committee is tasked with making sure Flood Protection expenditures are appropriate under the guidelines of the Measure A ordinance. Here are some answers to common questions about the City of Napa Flood Protection Project that are outside the scope of the FOC. Information here is provided as a courtesy of the Flood District Board of Directors.

Q: How much of the Napa Flood Project construction has been completed, and how much more needs to be done?

A: The Flood District estimates about 40% of the needed work has been completed. Components that have been completed are:

COMPLETED COMPONENTS	COMPLETED
South wetlands and marsh restoration	2001
Third Street Bridge replacement	2002
Phases 1 and 2 of railroad relocation	2003
Oil Company Road contamination cleanup	2004
Soscol Avenue Bridge over the Bypass	2004
First Street Bridge over Napa Creek and Bypass	2005
Maxwell Bridge replacement	2006
COMPONENTS UNDER CONSTRUCTION	COMPLETION
East terracing	2006
Hatt to First Floodwall	2007

UPCOMING COMPONENTS

Phase 3 of railroad relocation
Bypass excavation and oxbow area floodwalls
Napa Creek Terraces/Culverts
East side floodwall/Tulocay to Third Street
Tulocay pump station
West side floodwall/Imola to Hatt
Imola detention basin and pump station
Floodwall/levees north of the oxbow
Soscol detention basin/pump station
See www.napaflooddistrict.org for updated construction schedule.

Q: How are flood protection projects to be maintained after construction is completed?

Maintenance will be the responsibility of the local entity, which may be a City or Town or the Flood District. In the case of the City of Napa Project, the plan includes setting aside a maintenance fund of \$10 million from Measure A revenues. The City of Napa and the Flood District will use these funds in partnership to maintain Project features. Maintenance of relocated utilities and structures will be the responsibility of the owners, such as PGE, Caltrans, and the Napa Sanitation District.

Q: How did the completed components of flood protection projects perform during the recent flood?

The Yountville Flood Barrier, the only fully-completed flood protection feature, was successful in preventing flooding of the mobile home parks in Yountville during the flood event of 12/31/05.

In the City of Napa, there is confidence that the Flood Protection Project elements that have been completed did contribute to lessening the damage from this storm. Downstream terracing and wetlands creation gave floodwaters a place to spread out away from developed areas. The three downtown bridges completed, built higher and longer for greater water-conveying capacity, stayed well above the water level and did not behave like dams as the old bridges did. It appears that flooding in the downtown and old town areas would have been more severe if the bridge replacements had not been completed.

Unfortunately, only about 40% of the Flood Protection Project has been completed. Designed to function as an integrated system, the Project can bring relief from the flooding along the River and on Napa Creek only when fully completed. Excavation of the Oxbow Bypass is a critical element yet to come. Before that excavation can take place, a long section of railroad track including two railroad bridges must be built. The elevation of the tracks and bridges will further increase water-carrying capacity. Napa Creek improvements will include bypass culverts to carry excess water, along with bridge replacements and terracing to improve flow. Later, floodwalls and levees will be constructed along most of the six miles of the Napa Project. And finally, three detention basins with accompanying pump stations will be built to handle runoff that otherwise would pool behind the floodwalls.

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FINANCIAL SECTION
INDEPENDENT AUDITOR'S REPORT

Board of Directors
Napa County Flood Protection and
Watershed Improvement Authority
Napa, California

We have audited the accompanying basic financial statements of the Napa County Flood Protection and Watershed Improvement Authority (Authority), a component unit of the County of Napa, California, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the Napa County Flood Protection and Watershed Improvement Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the 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 we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Napa County Flood Protection and Watershed Improvement Authority as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison information, as listed in the table of contents, 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. We 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, we did not audit the information and express no opinion on it.

Board of Directors
Napa County Flood Protection and
Watershed Improvement Authority
Napa, California

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005 on our consideration of the Napa County Flood Protection and Watershed Improvement Authority's internal control over financial reporting and our 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 our 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 our audit.

BARTIG, BASLER & RAY, CPAs, INC.
August 17, 2005
Roseville, California

This section of the Napa County Flood Protection and Watershed Improvement Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year that ended on June 30, 2005. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority collected \$11.5 million in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A.
- The Authority provided \$13,387,373 to some of its members for their respective flood control projects.
- The cash position of the Authority remained strong with over \$35.8 million invested in the County's investment pool.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority's financial position and activity.

• The first two statements are *government-wide* financial statements that provide both *long-term* and *short-term* information about the Authority's overall financial status.

• The remaining statements are *fund* financial statements that focus on individual parts of the Authority's organization. These statements report the Authority's financial position and activity.

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 includes budgetary comparison information for the Authority's only special revenue fund.

Government-Wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Authority's assets and liabilities including long-term debt. 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 Authority's net assets and how they have changed. Net assets – the difference between the Authority's assets and liabilities – is one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are indicators of whether its financial health is improving or deteriorating, respectively.

Fund Financial Statements

The fund financial statements provide a detailed short-term view and do not include information related to the Authority's long-term liabilities. Additional information is provided on separate schedules that reconcile the differences between the government-wide financial statements and the fund financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets

A summary of the Authority's Statement of Net Assets is as follows:

	2005	2004	Increase (Decrease)
Current assets	\$ 48,873,293	\$41,595,425	\$ 7,277,868
Total Assets	48,873,293	41,595,425	7,277,868
Current liabilities	3,503,033	2,571,460	931,573
Long-term liabilities	49,920,000	39,370,000	10,550,000
Total liabilities	53,423,033	41,941,460	11,481,573
Net Assets	\$ (4,549,740)	\$ (346,035)	\$(4,203,705)

The Authority's net assets decreased \$4.2 million from \$(346,035) at June 30, 2004 to \$(4.5million) at June 30, 2005. The decrease is primarily due to project costs in excess of revenues and the payment reducing long term debt. Net assets show a deficit as of June 30, 2004 and June 30, 2005 because of the large outstanding principal of the 1999 Series A Limited Tax Bonds and the issuance of the new 2005 Series A Limited Tax Bonds. Current liabilities increased \$931,573 over the prior year due to an increase in the principal repayment on the 1999 and 2005 Series A Limited Tax Bonds.

Changes in Net Assets

A summary of the Authority's Statement of Activities, recapping the Authority's revenues earned during the fiscal year ended June 30, 2005, and the expenditures incurred are as follows:

	2005	2004	Increase (Decrease)
Revenues:			
Sales and use taxes	\$ 11,545,826	\$ 11,948,764	\$ (402,938)
Investment earnings	1,020,994	715,290	305,704
Other revenue	3,215	--	3,215
Total Revenues	12,570,035	12,664,054	(94,019)
Total Expenditures	16,773,740	9,642,722	7,131,018
Net Increase (Decrease) in Net Assets	(4,203,705)	3,021,332	\$(7,225,037)
Net Assets, beginning	(346,035)	(3,367,367)	
Net Assets, ending	\$(4,549,740)	\$ (346,035)	

The sales and use taxes received in both years were higher than originally expected. The increase in investment earnings is the result of a global increase in investment rates and in the balance of the cash with fiscal agent during the fiscal year ended June 30, 2005. The most significant change in expenditures was the increase in payments made to the members for their respective projects.

BUDGETARY HIGHLIGHTS

The Authority adopts an annual operating budget that includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain comments from the public before finalizing the budget. The Authority's budget is adopted by the County's Board of Supervisors on or before August 30th of each year. Subsequent increases or decreases to the original budget must be approved by the Board of Supervisors. The Authority is a special revenue fund which is the operating fund.

The difference between the original budget and the final amended budget resulted in an increase of \$1,687,000. This increase is due in part to an increase in Member project charges for the City of St. Helena (\$531,880) and the City of American Canyon (\$388,727). Additionally, adjustments to the budget were required for costs related to bonds including a \$563,923 arbitrage payment related to the 1999 Series A Limited Tax Bonds and \$202,470 in interest and principle related to the 2005 Series A Limited Tax Subordinate Bonds.

The favorable revenue variance of \$14,991,732 is due to bond proceeds from the 2005 Series A Limited Tax Subordinate Bond issuance.

The favorable expenditure variance of \$18,494,648 reflects the delay by the Authority's members in requesting funds for their respective projects identified in the Napa County Flood Protection and Watershed Improvement Expenditure Plan, and a good control of overhead costs.

DEBT ADMINISTRATION

On July 1, 1999, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Bonds in the amount of \$43,650,000. The proceeds were principally used to finance the initial phase of the Napa Flood Project. A principal payment of \$2,185,000 was made during this fiscal year. The principal balance outstanding at June 30, 2005 is \$39,370,000. A principal payment of \$2,275,000 is due in fiscal year 2005-2006. The bonds will be fully paid for by June 2018.

On March 1, 2005, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Bonds in the amount of \$13,655,000. The proceeds were principally used to finance the initial phase of the City of St. Helena's flood protection and watershed improvement project. No principal payments were made during this fiscal year. The principal balance outstanding at June 30, 2005 is \$13,655,000. A principal payment of \$830,000 is due in fiscal year 2005-2006. The bonds will be fully paid for by June 2018.

CONTACTING THE AUTHORITY

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or any additional information needed, contact the Authority's office at 1195 Third Street, Suite B-10, Napa, CA 94559.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2005

REVENUES	
Sales & use tax	\$ 11,545,826
Interest income	1,020,994
Other revenue	3,215
Total Revenues	12,570,035
EXPENDITURES	
Member project charges	13,387,373
Administration charges	97,425
Professional services	32,408
Other charges	188,156
Debt Service:	
Principal	2,185,000
Interest and fiscal charges	2,115,104
Administration, issuance and arbitrage fees	934,926
Total Expenditures	18,940,392
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,370,357)
OTHER FINANCING SOURCES (USES)	
Bond proceeds	13,655,000
Net Change in Fund Balances	7,284,643
Fund Balances - Beginning of Year	41,291,550
Fund Balances - End of Year	\$ 48,576,193

Balance Sheet Governmental Funds June 30, 2005

ASSETS	
Cash and investments in county treasury	\$ 35,872,900
Cash with fiscal agent	10,975,02
Prepaid bond principal payments	69,167
Due from other governmental agencies	1,956,202
Total Assets	\$ 48,873,293
LIABILITIES	
Accounts payable	\$ 297
FUND BALANCES	
Fund Balances:	
Reserved for encumbrances	210
Unreserved:	
Designated	48,365,19
Total Fund Balances	48,576,19
Total Liabilities and Fund Balances	\$ 48,873,293

Reconciliation of the Government Funds Balance Sheet to the Government-Wide Statement of Net Assets (Deficit) - Government Activities June 30, 2005

Fund balance - total government funds	\$ 48,576,193
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of the end of the year are:

Accrued interest on long-term debt	(100,933)
Bonds payable	(53,025,000)
Net Assets (Deficit) of Governmental Activities	\$ (4,549,740)

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2005**

Net change to fund balance - total governmental funds	\$ 7,284,64
Amounts reported for governmental activities in the statement of activities are different because:	
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	
Proceeds from bond issuance	(13,655,000)
Under the modified accrual basis of accounting used in the governmental funds, interest on long-term debt is not recognized until due. In the statement of activities, however, which is presented on the accrual basis interest on long-term debt is recognized as it accrues.	
Change in accrued interest on long-term debt	(18,348)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal repayments: Bonds payable	2,185,000
Change in Net Assets of Governmental Activities	\$ (4,203,705)

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2005**

Net change to fund balance - total governmental funds	\$ 7,284,64
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Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	
Proceeds from bond issuance	(13,655,000)
Under the modified accrual basis of accounting used in the governmental funds, interest on long-term debt is not recognized until due. In the statement of activities, however, which is presented on the accrual basis interest on long-term debt is recognized as it accrues.	
Change in accrued interest on long-term debt	(18,348)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal repayments: Bonds payable	2,185,000
Change in Net Assets of Governmental Activities	\$ (4,203,705)

**BASIC FINANCIAL STATEMENTS - FUND FINANCIAL
STATEMENTS**

**Statement of Net Assets (Deficit)
June 30, 2005**

ASSETS	Governmental Activities
Current Assets:	
Cash and investments in county treasury	\$ 35,872,900
Cash with fiscal agent	10,975,024
Prepaid bond principal payments	69,167
Due from other governmental agencies	1,956,202
Total Assets	\$ 48,873,293
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 297,100
Accrued interest	100,933
Bonds payable, current portion	3,105,000
Total Current Liabilities	3,503,033
Long-Term Liabilities:	
Bonds payable	49,920,000
Total Liabilities	53,423,033
NET ASSETS (DEFICIT)	
Unrestricted (deficit)	(4,549,740)
Total Net Assets (Deficit)	(4,549,740)
Total Liabilities and Net Assets	\$ 48,873,293

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

Net change to fund balance - total governmental funds	\$ 7,284,64		Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Amounts reported for governmental activities in the statement of activities are different because:			
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.			
Proceeds from bond issuance	(13,655,000)		
Under the modified accrual basis of accounting used in the governmental funds, interest on long-term debt is not recognized until due. In the statement of activities, however, which is presented on the accrual basis interest on long-term debt is recognized as it accrues.			
Change in accrued interest on long-term debt	(18,348)		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			
Principal repayments: Bonds payable	2,185,000		
Change in Net Assets of Governmental Activities	\$ (4,203,705)		
Functions/Programs	Expenses	Program Revenues	
Governmental Activities:			
General government	\$ 317,989	\$ --	\$(317,989)
Public protection	13,387,373	--	(13,387,373)
Interest on long-term debt	2,133,452	--	(2,133,452)
Administration, issuance and arbitrage fe	934,926	--	(934,926)
Total Governmental Activities	\$ 16,773,740	\$ --	(16,773,740)
General Revenues:			
Taxes:			
Sales and use taxes			11,545,826
Other Revenue			3,215
Unrestricted interest and investment earnings			1,020,994
Total General Revenues			12,570,035
Change in Net Assets			(4,203,705)
Net Assets (Deficit) - Beginning of Year			(346,035)
Net Assets (Deficit) - End of Year\$			(4,549,740)

**Schedule of Revenues, Expenditures and Changes in Fund Balances
Budgetary Comparison Schedule For the Year Ended June 30, 2005**

	Budgeted Amounts Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balances, End of Year, as Reported June 30, 2004	\$ 41,291,550	\$ 41,291,550	\$ 41,291,55	\$ --
Resources (inflows):				
Taxes	10,600,000	10,733,303	11,545,826	812,523
Revenue from use of money and property	500,000	500,000	1,020,994	520,994
Other revenue	--	--	3,215	3,215
Bond proceeds	--	--	13,655,000	13,655,000
Amounts Available For Appropriation	11,100,000	11,233,303	26,225,035	14,991,732
Charges to Appropriations (outflows):				
Current:				
Member project charges	31,350,000	32,270,607	13,387,373	18,883,234
Legal charges	26,000	26,000	--	26,000
Administration charges	100,000	100,000	97,425	2,575
Professional services	70,000	70,000	32,408	37,592
Other charges	35,000	35,000	188,156	(153,156)
Debt service:				
Principal	2,185,000	2,254,167	2,185,000	69,167
Interest charges	1,982,040	2,679,266	2,115,104	564,162
Administration and issuance fees	--	--	934,926	(934,926)
Total Charges to Appropriations	35,748,040	37,435,040	18,940,392	18,494,648
Budgetary Fund Balances, End of Year	\$ 16,643,510	\$ 15,089,813	\$ 48,576,19	\$33,486,380

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the Authority, and other necessary disclosure of pertinent matters relating to the financial position of the Authority. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The role of the Napa County Flood Protection and Watershed Improvement Authority is to contract with the Board of Equalization for collection of sales tax and establish individual accounts for each jurisdiction; disburse revenues through project contracts which meet Measure A compliance; obtain the necessary debt financing for the Napa Project; and perform annual audits. The Napa County Flood Protection and Watershed Improvement Authority is subject to review by the Financial Oversight Committee. The Napa County Flood Protection and Watershed Improvement Authority will contract with the Napa County Flood Control and Water Conservation District to perform most of these functions on its behalf. The Memorandum of Understanding; replaced by the Joint Powers Agreement Regarding the Use and Equitable Distribution of Flood Protection Sales Tax Revenues, along with an annual budget amendment, is the mechanism for contracting with the District to carry out these functions.

The Authority is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Authority. As such, the Authority is an integral part of the County and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements of the County. The Authority is a special revenue fund of the County of Napa.

The Authority includes all operating activities considered to be a part of the Authority. The Authority reviewed the criteria developed by the Governmental Accounting Standards Board

(GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the Authority is financially accountable for other entities. The Authority has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements.

B. Measure A

Measure A is an ordinance of the Napa County Flood Protection and Watershed Improvement Authority imposing a half-cent Napa County Flood Protection Transactions (sales) and use tax pursuant to the provisions of Revenue and Taxation Code Section 7285.5, establishing a Napa County Flood Protection and Watershed Improvement Expenditure Plan, establishing a Financial Oversight Committee and Technical Advisory Panel, requiring any funds generated as a result of the imposition of the Napa County Flood Protection Transactions (sales) and use tax to be spent on the projects identified in the expenditure plan, authorizing the issuance of bonds or other obligations to finance the projects identified in the expenditure plan payable from the revenues generated by the transactions (sales) and use tax and establishing an appropriations limit.

County voters approved Measure A in March 1998 by a 68% majority for a 20-year period, countywide. This tax is expected to generate in excess of \$6 million per year, 2/3 of which will be used to help pay the local share (50%) of the Napa River/Napa Creek Flood Protection Project ("Napa Project"), a construction project in partnership with the U.S. Army Corps of Engineers. The U.S. Army Corps of Engineers has updated the total project costs, which were estimated at June 30, 2005 at \$256 million. The Napa Project will provide 100-year flood protection throughout the City of Napa as a result of widening the river channel, bridge replacement, floodwall and levee construction, and the creation of a "dry by-pass" channel in downtown Napa to handle overflows. Additional information about the Napa Project can be obtained from the Napa County Flood Control and Water Conservation District, 804 First Street, Napa, CA 94559.

The remaining 1/3 of these funds will be allocated among the

other County jurisdictions – in proportion to their historical sales tax revenue proceeds – in order to help them pay for their own flood protection or watershed management projects. However, because of the front-end financing needs of the Napa Project, the municipalities will loan collected sales tax exceeding \$1 million to the project for the first seven (7) years of the Flood Protection Sales tax term. They will be repaid – with interest – beginning in Year 8 and ending in Year 20, when the tax will be terminated.

C. Memorandum of Understanding (MOU)/Joint Powers Agreement (JPA)

The County of Napa (County), Napa County Flood Protection and Watershed Improvement Authority (Authority), the Napa County Flood Control and Water Conservation District (District), the Cities of American Canyon, Napa, St. Helena, Calistoga and the Town of Yountville (Municipalities) each have a representative to the District to be a signatory to the MOU after receiving authority from their Governing Body. This MOU is the precursor to the Joint Powers Agreement Regarding the Equitable Distribution of Flood Protection Sales Tax revenues which was signed November 1, 1998 between the Authority, the District, the County and the Municipalities as required by Section 3(g) and Section 5 of the Napa County Flood Protection Sales Tax Ordinance (97-1), (Ordinance). The Ordinance requires that new revenues generated by a 1/2 % increase in the local sales tax fund only the flood protection, water supply reliability and wastewater projects identified in the Napa County Flood Protection and Watershed Improvement Expenditure Plan (Plan) contained in the Ordinance. This MOU/JPA contains operating policies and criteria regarding equitable distribution of new sales tax revenues to the County and Municipalities, debt financing for projects contained in the Plan, project substitution, fund accounting, contract relationships and administrative support to the Financial Oversight Committee and Technical Advisory Panel established by the Ordinance.

D. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the Authority). These statements include the non-fiduciary financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and information sales. At June 30, 2005, the Authority had no business-type activities.

The statement of activities demonstrates the degree to which the program expenses of a given function or identifiable activity is offset by program revenues. Program expenses are those that are clearly identifiable with a specific function or identifiable activity, and allocated indirect expenses. Interest expense related to long-term debt is reported as a direct expense. Program revenues include 1) fees, fines and charges paid by the recipient of goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The Authority did not have any program revenues for the year ended June 30, 2005. Revenues that are not classified as program revenues, including all taxes and investment earnings, are presented instead as general revenues. When both restricted and unrestricted net assets are available, restricted resources are used for non-restricted purposes only after the unrestricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Authority had only one governmental fund and no enterprise fund for the year ended June 30, 2005.

E. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related

cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes. On an accrual basis, revenues from sales tax are recognized when the underlying transactions take place.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Sales taxes and interest revenues are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Proceeds of general long-term debt are reported as other financial sources.

F. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 40

At June 30, 2005, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, *Deposits with*

Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Accordingly, the cash and investments disclosure has been revised to conform to the provisions of GASB Statement No. 40.

G. Sales Taxes

All sales taxes are levied and collected by the California State Board of Equalization and paid upon collection to the various taxing entities including the Authority. An estimate is paid in the first two months of each quarter, and adjusted in the third month of the quarter to reflect the actual share of sales taxes due to the Authority.

H. Due from Other Agencies

These amounts represent receivables from other local governments that management has determined to be fully collectible. Accordingly, no allowance for doubtful accounts has been made. As of June 30, 2005, the Authority was due \$1,955,100 from the State of California.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, into one component of net assets. Accumulated depreciation and the outstanding balance of debt that are attributable to capital assets reduce the balance in this category.

- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Assets – This category represents net assets of the Authority, not restricted for any project or any other purpose.

As of June 30, 2005, the Authority has only unrestricted net assets.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various

reserves and designations are established by actions of the Board and management and can be increased or eliminated by similar actions.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

As of June 30, 2005, designations of unreserved fund balance included:

Designation for Municipalities and Unincorporated County of Napa – to represent the portion of fund balance that is not available for expenditure because the Authority maintains funds for the flood protection, water supply reliability and wastewater projects of the Cities of American Canyon, Napa, St. Helena, Calistoga, the Town of Yountville and the Unincorporated County of Napa, identified in the Napa County Flood Protection and Watershed Improvement Expenditure Plan contained in Sections 3(g) and 5 of the Napa County Flood Protection Sales Tax Ordinance (97-1).

K. Insurance and Risk of Loss

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Because the Authority does not have employees, it is not exposed to injuries to employees. The Authority's officers are officials of the County, and therefore coverage for general liability and errors and omissions is provided under the County's program. This program is self-insured to a level of \$300,000, after which excess coverage is obtained through participation in the CSAC Excess Insurance Authority (EIA).

Note 2: Cash and Investments

The Authority holds its cash and investments as follows:

A. Cash Held with the Napa County Treasury

Cash at June 30, 2005 consisted of the following:

	<u>2005</u>
Cash in County Treasury	\$ 35,872,900

The Authority maintains all of its cash and investments with the Napa County Treasurer in an investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Napa's financial statements may be obtained by contacting the County of Napa's Auditor-Controller's office at 1195 Third Street, Room B-10, Napa, CA 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

At June 30, 2005, the difference between the cost and fair value of cash and investments was not material. Therefore, an adjustment to fair value was not required for GASB 31 compliance.

Government Accounting Standards Board Statement No. 40, effective for fiscal years ending June 30, 2005, requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Authority has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the Authority's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	Not available

Investments held in the County's investment pool are

available on demand and are stated at cost plus accrued interest, which approximates fair value.

B. Cash Held with Fiscal Agent

The Authority holds all of its restricted cash, except for the reserve above held in the treasury, with US Bank (Agent). The Authority holds the cash related to the 1999 and 2005 Tax Bonds in seven separate accounts each: a principal fund, an interest fund, a revenue fund, a reserve fund, a sinking account, a project fund, and a "good faith" deposit account.

At June 30, 2005, the Authority's deposit balances with the fiscal agent totaled \$10,975,024. Required disclosures for the Authority's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	N/A
Custodial risk	None
Concentration of credit risk	N/A
Interest rate risk	N/A

Note 3: Bonds Payable

The following represents the changes in the long-term debt during the year:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
1999 Series A Bonds	\$ 1,555,000	\$ --	\$(2,185,000)	\$39,370,000	\$2,275,000
2005 Series A Bonds	=	13,655,000	=	13,655,000	810,000
	<u>\$41,555,000</u>	<u>\$13,655,000</u>	<u>\$(2,185,000)</u>	<u>\$53,025,000</u>	<u>\$3,105,000</u>

Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Governmental Activities Bonds Payable	
	Principal	Interest
2006	\$3,105,000	\$2,422,387
2007	3,230,000	2,300,800
2008	3,360,000	2,170,650
2009	3,510,000	2,023,875
2010	3,665,000	1,867,935
2011-2015	21,020,000	6,643,075
2016-2020	15,135,000	1,459,950
Total	<u>\$53,025,000</u>	<u>\$18,888,672</u>

Long-term liabilities at June 30, 2005 consisted of the following:

Date of Issue	Maturity	Annual Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2005
Governmental activities					
Bonds Payable					
1999 Series A (to finance or reimburse the Napa County Flood Protection and Watershed Improvement Authority for certain costs of the Napa River/Napa Creek Flood Protection Project, to pay the premium of a surety bond to be deposited in the Bond Reserve Fund established under the indenture, to pay capitalized interest if necessary, and to pay the costs of issuance of the 1999 Series A Bonds.)					
1999 Series A	7/1/1999	2018 4.25 - 5.00%	\$2,095,000-\$3,965,000	\$ 43,650,000	\$9,370,000
2005 Series A Bonds (to finance or reimburse the Napa County Flood Protection and Watershed Improvement Authority for certain costs of the City of St. Helena's flood protection and watershed improvement project, to pay the premium of a surety bond to be deposited in the Bond Reserve Fund established under the indenture, and to pay the costs of issuance of the 2005 Series A Bonds.)					
2005 Series A	3/1/2005	2018 3.00-4.00%	\$830,000-\$1,315,000	13,655,000	13,655,000
Total bonds payable				<u>\$57,305,000</u>	<u>\$53,025,000</u>

New Issuance

On March 1, 2005, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Subordinate Bonds for \$13,655,000. Interest on the 2005 Series A Bonds was payable on June 15, 2005 and semiannually thereafter on December 15 and June 15 of each year. The bonds were issued to (i) provide funds to refund certificates of participation executed and delivered in 1996, (ii) establish a reserve fund for the

Certificates, and (iii) pay certain costs incurred in connection with the execution and delivery of the Certificates, including the premium for Certificate insurance.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the current fiscal year the County paid \$463,695 in arbitrage fees.

Note 4: Fund Balance

The Authority's fund balance is designated according to the Napa County Flood Protection Sales Tax Ordinance (97-1) between the Authority, the District, the County and the Municipalities. As of June 30, 2005 the fund balance was designated as follows:

Unreserved – designated:	
City of American Canyon	\$ 1,206,626
City of Calistoga	736,962
City of Napa	32,917,208
City of St. Helena	901,957
Town of Yountville	147,470
Unincorporated – County of Napa	1,479,947
City of St. Helena Bond	<u>10,975,024</u>
Total	\$ <u>48,365,194</u>

Note 5: Related Party Transactions

During the fiscal year ended June 30, 2005, the Authority paid the County of Napa, a related party, \$157,427, of which \$121,083 was for Measure A projects administration fees and \$36,344 for legal services.

The Authority paid \$10,000,000 to the City of Napa, \$2,401 to the City of Calistoga, \$336,194 to the City of St. Helena, \$40,677 to the Town of Yountville, and \$386 to the County of Napa for their respective flood control projects.

Note 6: Subsequent Events

On July 1, 2005, the Napa County Flood Protection and Watershed Improvement Authority issued \$29,710,000 in limited tax refunding bonds. The bonds were issued to partially refund a bond indenture dated July 1, 1999. The Series 2005 Bonds will mature June 15, 2018, with principal payments from \$50,000 – \$3,870,000. The interest range will vary from 3.250% – 5.00%.

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY BASIS OF ACCOUNTING

The Authority operates under the general laws of the State of California and annually adopts a budget to be effective July 1 of the ensuing fiscal year. Formal budgetary integration is employed as a management control device during the year for all governmental fund types. The level of control (level at when expenditures may not exceed budget) is the fund. Unused appropriations for all of the above annually budgeted funds lapse at the end of the fiscal year.

Budget information is presented for all funds budgeted. The Authority makes adjustments to its original budget during the year. This enables the effectiveness of individual departments in meeting budget objectives to be evaluated and the adequacy of the budget itself to be judged. The only exceptions to this are the appropriations of unanticipated revenues and the revision of appropriations to reflect major economic up or down turns materially affecting estimated revenues. Expenditures in excess of budgeted amounts are approved individually by the Board. Annual appropriated budgets are adopted for the special revenue fund. It is this

final revised budget that is presented in these financial statements.

Budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

OTHER REPORT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Napa County Flood Protection and
Watershed Improvement Authority
Napa, California

We have audited the basic financial statements of Napa County Flood Protection and Watershed Improvement Authority, a component unit of the County of Napa, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Napa County Flood Protection and Watershed Improvement Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Napa County Flood Protection and Watershed Improvement Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of the Napa County Flood Protection Sales Tax Ordinance (Measure A) and the Memorandum of Understanding (MOU)/ Joint Powers Agreement (JPA) regarding the use and equitable distribution of the sales tax revenues generated by enactment of the Ordinance. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Directors
Napa County Flood Protection and
Watershed Improvement Authority
Napa, California

BARTIG, BASLER & RAY, CPAs, INC.
August 17, 2005
Roseville, CA