

A report from the  
**Financial Oversight Committee**  
on  
**Flood Protection Projects**  
in  
**Napa County**  
*August 2007*

Citizens of Napa County,

It has been just over nine 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](http://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 5 (this meeting will convene at the Napa Mill complex to view work underway) and November 7. 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.

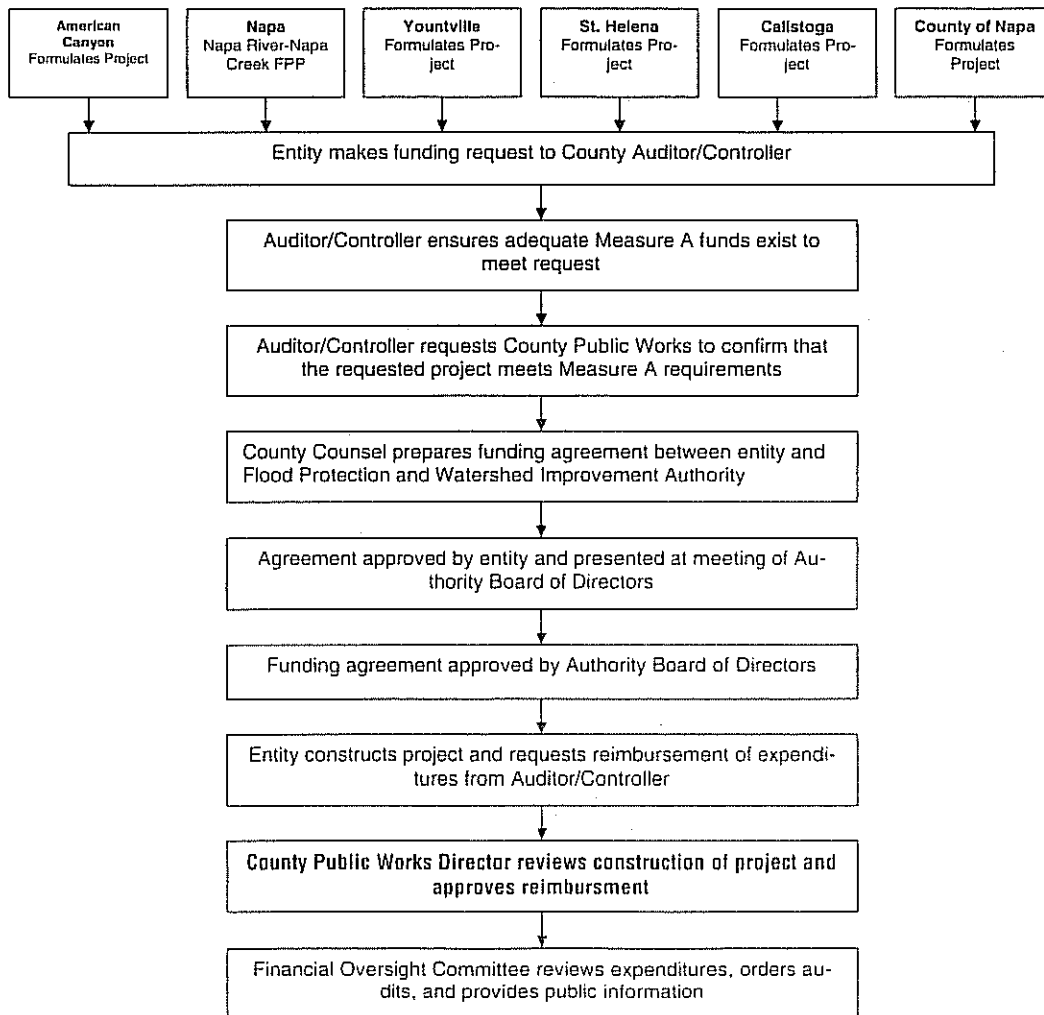
Sincerely,  
Carl Ebbeson  
Chairman, Financial Oversight Committee August 2007

## ANSWERS TO COMMON QUESTIONS

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

"Chart 1: 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.

**Chart 1: Flood Protection Funding Flow Chart**



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

A: Using 1996 as the base year, a Joint Powers Agreement (JPA) 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. In 2006-2007, the County Auditor-Controller and the Finance Managers for the parties involved in the JPA began a preliminary review of the percentages used for distribution. When this review is complete, the distribution percentages may be adjusted to ensure that each entity is receiving revenues proportionate to their sales tax generation.

"Chart 2: Measure A Sales Tax Distributions as of June 30, 2006" 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 (2005-06.) This chart shows only the gross sales tax revenues for each entity listed and does not include revenues from interest or outlays for expenses.

**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. "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%   |
| 2005/2006                  | \$ 11,028,000     | \$ 13,125,000   | 19.10%   |

**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. At the conclusion of the tax collection, a fund will have been established to fund the ongoing maintenance needs for Measure A projects.

**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. Allocations vary from year to year. Over seven fiscal years of construction, the COE has requested \$121 million for the Napa Project, but the White House and Congress have

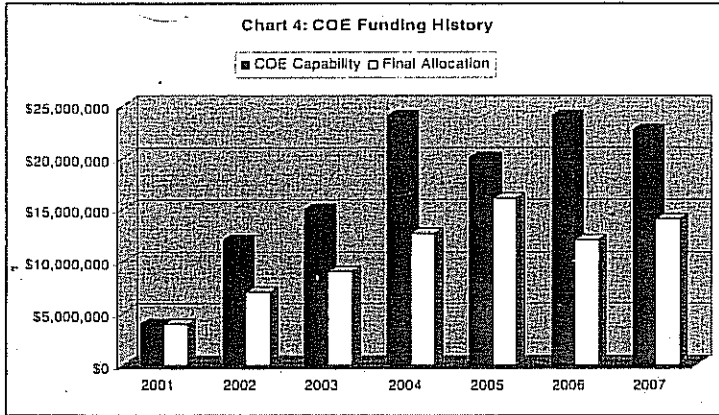
**Chart 2: Measure A Sales Tax Distributions as of June 30, 2006**

| Fiscal Year              | City of Napa and vicinity | City of American Canyon | City of Calistoga   | City of St. Helena  | Town of Yountville | County of Napa      | Total                |
|--------------------------|---------------------------|-------------------------|---------------------|---------------------|--------------------|---------------------|----------------------|
| 1998-99                  | 6,170,184.72              | 200,512.24              | 98,759.76           | 344,378.56          | 68,832.56          | 287,516.88          | 7,170,184.72         |
| 1999-00                  | 9,050,116.53              | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 10,050,116.54        |
| 2000-01                  | 9,299,475.54              | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 10,299,475.55        |
| 2001-02                  | 9,694,333.99              | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 10,694,334.00        |
| 2002-03                  | 9,413,557.07              | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 10,413,557.07        |
| 2003-04                  | 11,093,517.83             | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 12,093,517.84        |
| 2004-05                  | 10,545,825.93             | 200,512.25              | 98,759.77           | 344,378.55          | 68,832.56          | 287,516.88          | 11,545,825.93        |
| 2005-06                  | 8,741,486.47              | 879,398.79              | 433,136.72          | 1,509,415.83        | 301,883.17         | 1,260,034.09        | 13,125,335.06        |
| <b>Cumulative Totals</b> | <b>54,163,196.61</b>      | <b>2,282,984.53</b>     | <b>1,124,455.10</b> | <b>3,920,065.69</b> | <b>783,711.09</b>  | <b>3,272,652.25</b> | <b>85,392,346.71</b> |

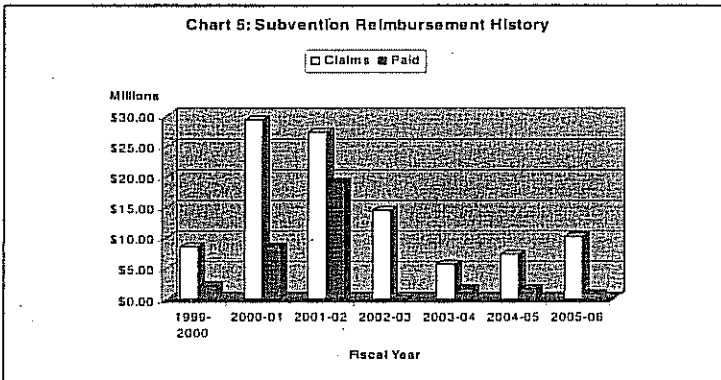
Note: The Joint Powers Agreement (JPA) that followed the passage of Measure A directed that in the first seven years of the tax, (FY 1998-99 through FY 2004-05) all revenues collected would flow to the City of Napa and vicinity accounts, except for \$1 million of revenues which would be distributed among the other Measure A entities according to the pre-determined allocation percentages. This agreement created an annual loan of about \$1 million from the other Measure A entities to the City of Napa Project, and allowed the City of Napa Project to begin immediately while other communities prepared plans for their flood protection needs. The JPA further directed that the revenues loaned to the City of Napa Project would be repaid to the other participants in Measure A starting in year eight (2005-06), as shown in the figures in Chart 2.

allocated only about \$75 million. These shortfalls have caused delays in construction of the Project. "Chart 4: COE Funding History" shows the year-to-year capability versus allocation.

The COE requested funding for FY 2008 is \$19 million for the City of Napa Project. The final allocation will be known in the fall of 2007.



**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 75% of local costs for land acquisition and up to 90% of the local cost for relocations of utilities and structures. From FY 1998 through FY 2006, the Napa Flood District as the local sponsor has submitted \$149 million in claims for Subvention Fund reimbursements. Of this amount, \$119 million is expected to be eligible for reimbursement. To date, the District has received \$65.3 million in reimbursements. Reimbursements are often not received in the fiscal year in which the claim is submitted, and claims are not necessarily processed to completion in the order in which they are received by the state. As a result, reimbursement amounts do not match up with claims on a year-to-year basis. "Chart 5: Subvention Reimbursement History" shows the claims filed and the reimbursements received in given fiscal years.



**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. \$3,398,258.42 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 \$125,738.31 of the City's Measure A funds. American Canyon is implementing a Flood Control and

Storm Drain Master Plan and has spent \$951,809.58 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 \$1,215,528.55 of its Measure A funds for the Silverado Trail Flood Protection Feasibility Study evaluating elevation of the roadway, the Lewelling Avenue Drainage Outfall Project, the Rutherford Dust restoration project, the Milliken-Sarco-Tulocay groundwater project, and the Angwin-Deer Park area study. All amounts are as of June 30, 2006.

**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, chart 4 shows the shortfall in federal 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 created uncertainty in the years 2003-2005 in regard to the near-term cash flow situation for the Flood District. Positive developments during the state budget process for FY 2007, and voter approval of the State infrastructure bond 1E in November 2006 created a brighter outlook for consistent reimbursements from the Subvention Fund; however, funding of Subvention reimbursements remains subject to approval by the State legislature on an ongoing basis.

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                           | DATE 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           |
| East terracing                                 | 2006           |

| COMPONENTS UNDER CONSTRUCTION | PLANNED COMPLETION |
|-------------------------------|--------------------|
| Hatt to First Floodwall       | 2008               |

| NEXT MAJOR COMPONENT   | ESTIMATED START |
|--|-----------------|
| Railroad relocation phase 3 (Two bridge projects and track parallel to Soscol from about Eighth Street to near Clinton Street) | 2008            |

**FUTURE COMPONENTS**

Bypass excavation and oxbow floodwalls  
 Napa Creek terraces and culverts  
 East side floodwall/Tulocay to Third St  
 Tulocay pump station construction  
 West side floodwall/Imola to Hatt  
 Imola detention basin and pump station  
 Floodwall and levees north of the oxbow  
 Soscol detention basin and pump station

See the latest construction schedule at [www.napaflooddistrict.org](http://www.napaflooddistrict.org)

**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, 2006**  
**NAPA COUNTY FLOOD PROTECTION AND  
 WATERSHED IMPROVEMENT AUTHORITY**

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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 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, 2006, 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 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, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, 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.

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.

BARTIG, BASLER & RAY, LLP  
 A Gallina LLP Company  
 September 14, 2006  
 Roseville, California

**NAPA COUNTY FLOOD PROTECTION AND  
 WATERSHED IMPROVEMENT AUTHORITY**  
**Management's Discussion and Analysis**

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, 2006. Please read it in conjunction with the Authority's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The Authority collected \$13.1 million in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A.

The Authority provided \$20,744,883 to its members for their respective flood control projects.

The cash position of the Authority remained strong with over \$25.2 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:

#### Condensed Statement of Net Assets As of June 30,

|                       | <u>2006</u>          | <u>2005</u>          | Increase<br>(Decrease) |
|-----------------------|----------------------|----------------------|------------------------|
| Current assets        | \$ <u>36,715,653</u> | \$ <u>48,873,293</u> | \$ <u>(12,157,640)</u> |
| Total Assets          | <u>36,715,653</u>    | <u>48,873,293</u>    | <u>(12,157,640)</u>    |
| Current liabilities   | 3,371,357            | 3,503,033            | (131,676)              |
| Long-term liabilities | <u>46,817,472</u>    | <u>49,920,000</u>    | <u>(3,102,528)</u>     |
| Total liabilities     | <u>50,188,829</u>    | <u>53,423,033</u>    | <u>(3,234,204)</u>     |
| Net Assets (Deficit)  | \$ (13,473,176)      | \$ (4,549,740)       | \$ (8,923,436)         |

The Authority's net assets decreased \$8.9 million from \$(4,549,740) at June 30, 2005, to \$(13,473,176) at June 30, 2006. 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, 2005, and June 30, 2006, because of the large outstanding principal of the 2005 Series A Limited Tax Bonds and the issuance of the new 2005 Refunding Limited Tax Bonds. Total liabilities decreased \$3,243,204 over the prior year due to a net decrease in the outstanding principal on the 2005 Refunding 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, 2006, and the expenditures incurred are as follows:

#### Condensed Statement of Activities For the Fiscal Year Ended June 30, 2006

|  | <u>2006</u>        | <u>2005</u>       | Increase<br>(Decrease) |
|--|--------------------|-------------------|------------------------|
| Revenues:                                |                    |                   |                        |
| Sales and use taxes                      | \$ 13,125,355      | \$ 11,545,826     | \$ 1,579,529           |
| Investment earnings                      | 1,433,447          | 1,020,994         | 412,453                |
| Other revenue                            | <u>112,367</u>     | <u>3,215</u>      | <u>109,152</u>         |
| Total Revenues                           | 14,671,169         | 12,570,035        | 2,101,134              |
| Total Expenses                           | <u>23,594,605</u>  | <u>16,773,740</u> | <u>6,820,865</u>       |
| Net Increase (Decrease)<br>in Net Assets | (8,923,436)        | (4,203,705)       | \$ (4,719,731)         |
| Net Assets, beginning                    | <u>(4,549,740)</u> | <u>(346,035)</u>  |                        |
| Net Assets, ending                       | \$ (13,473,176)    | \$ (4,549,740)    |                        |

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, 2006. 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 to appropriations of \$6,614,763. This increase is due mainly to an increase in Member project charges for the City of Napa, as well as increased principal payments on outstanding debt.

The favorable revenue variance of \$34,005,209 is due to bond proceeds from the 2005 Series Limited Tax Refunding Bond issuance, higher than anticipated receipts from sales and use taxes, and higher interest rates on invested funds.

The unfavorable expenditure variance of \$30,178,696 reflects the payment into escrow for the refunded portion of the 1999 Series A Limited Tax Bonds and related interest.

#### 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 \$2,275,000 was made during this fiscal year. The principal balance outstanding at June 30, 2006, is \$7,440,000 (after advance refunding of \$29,655,000). A principal payment of \$2,375,000 is due in fiscal year 2006-2007. The bonds will be fully paid for by June 2009.

On July 12, 2006, the Napa County Flood Protection and Watershed Improvement Authority issued 2005 Series Limited Tax Refunding Bonds in the amount of \$29,710,000. The proceeds were used to (i) partially refund the 1999 Series A Bonds, and (ii) pay certain costs incurred in connection with the execution and delivery of the Certificates, including the premium for Certificate insurance. A principal payment of \$130,000 was made during this fiscal year. The principal balance outstanding at June 30, 2006, is \$29,580,000. A principal payment of \$50,000 is due in fiscal year 2006-2007. 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. A principal payment of \$830,000 was made during this fiscal year. The principal balance outstanding at June 30, 2006, is \$12,825,000. A principal payment of

\$855,000 is due in fiscal year 2006-2007. 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**

**NAPA COUNTY FLOOD PROTECTION AND WATERSHED IMPROVEMENT AUTHORITY  
Statement of Net Assets (Deficit) June 30, 2006**

| ASSETS                                       |           | Governmental<br>Activities |
|--|-----------|----------------------------|
| <b>Current Assets:</b>                       |           |                            |
| Cash and investments in county treasury      | \$        | 25,214,029                 |
| Cash with fiscal agent                       |           | 9,259,224                  |
| Due from other governmental agencies         |           | 2,242,400                  |
| <b>Total Assets</b>                          | <b>\$</b> | <b>36,715,653</b>          |
| <b>LIABILITIES</b>                           |           |                            |
| <b>Current Liabilities:</b>                  |           |                            |
| Accounts payable                             | \$        | 1,750                      |
| Accrued interest                             |           | 89,607                     |
| Bonds payable, current portion               |           | 3,280,000                  |
| <b>Total Current Liabilities</b>             |           | <b>3,371,357</b>           |
| <b>Long-Term Liabilities:</b>                |           |                            |
| Bonds payable, net of premiums and discounts |           | 46,817,472                 |
| <b>Total Liabilities</b>                     |           | <b>50,188,829</b>          |
| <b>NET ASSETS (DEFICIT)</b>                  |           |                            |
| Unrestricted (deficit)                       |           | (13,473,176)               |
| <b>Total Net Assets (Deficit)</b>            |           | <b>(13,473,176)</b>        |
| <b>Total Liabilities and Net Assets</b>      | <b>\$</b> | <b>36,715,653</b>          |

**Statement of Activities For the Fiscal Year Ended June 30, 2006**

| Functions/Programs                               | Expenses             | Program<br>Revenues | Net (Expense)<br>Revenue<br>and Changes<br>in Net Assets<br>Governmental<br>Activities |
|--|----------------------|---------------------|--|
| <b>Governmental Activities:</b>                  |                      |                     |  |
| General government                               | \$ 123,395           | \$ --               | \$ (123,395)   |
| Public protection                                | 20,744,883           | --                  | (20,744,883)   |
| Interest on long-term debt                       | 2,287,361            | --                  | (2,287,361)  |
| Administration, issuance and<br>arbitrage fees   | 438,966              | --                  | (438,966)  |
| <b>Total Governmental Activities</b>             | <b>\$ 23,594,605</b> | <b>\$ --</b>        | <b>(23,594,605)</b>  |
| <b>General Revenues:</b>                         |                      |                     |  |
| <b>Taxes:</b>                                    |                      |                     |  |
| Sales and use taxes                              |                      |                     | 13,125,355   |
| Other Revenue                                    |                      |                     | 112,367  |
| Unrestricted interest and<br>investment earnings |                      |                     | 1,433,447  |
| <b>Total General Revenues</b>                    |                      |                     | <b>14,671,169</b>  |
| <b>Change in Net Assets</b>                      |                      |                     | <b>(8,923,436)</b>   |
| <b>Net Assets (Deficit) - Beginning of Year</b>  |                      |                     | <b>(4,549,740)</b>   |
| <b>Net Assets (Deficit) - End of Year</b>        |                      |                     | <b>\$ (13,473,176)</b>   |

**FUND FINANCIAL STATEMENTS  
Balance Sheet Governmental Funds June 30, 2006**

|  |                      |
|--|----------------------|
| <b>ASSETS</b>                              |                      |
| Cash and investments in county treasury    | \$ 25,214,029        |
| Cash with fiscal agent                     | 9,259,224            |
| Due from other governmental agencies       | 2,242,400            |
| <b>Total Assets</b>                        | <b>\$ 36,715,653</b> |
| <b>LIABILITIES</b>                         |                      |
| Accounts payable                           | \$ 1,750             |
| <b>FUND BALANCES</b>                       |                      |
| <b>Fund Balances:</b>                      |                      |
| Reserved for encumbrances                  | 506,737              |
| Unreserved:                                |                      |
| Designated                                 | 36,207,166           |
| <b>Total Fund Balances</b>                 | <b>36,713,903</b>    |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 36,715,653</b> |

**Reconciliation of the Governmental Funds Balance Sheet  
to the Government-Wide Statement of Net Assets (Deficit) -  
Governmental Activities June 30, 2006**

|   |               |
|---|---------------|
| Fund balance - total governmental funds | \$ 36,713,903 |
|---|---------------|

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                     | (89,607)               |
| Bonds payable  | (50,097,472)           |
| <b>Net Assets (Deficit) of Governmental Activities</b> | <b>\$ (13,473,176)</b> |

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds For the Fiscal Year Ended June 30, 2006**

|  |                      |
|--|----------------------|
| <b>REVENUES</b>  |                      |
| Sales & use tax  | \$ 13,125,355        |
| Interest income  | 1,433,447            |
| Other revenue  | 112,367              |
| <b>Total Revenues</b>  | <b>14,671,169</b>    |
| <b>EXPENDITURES</b>  |                      |
| Member project charges   | 20,744,883           |
| Administration charges   | 89,468               |
| Professional services  | 25,459               |
| Other charges  |                      |
| Debt Service:  |                      |
| Principal  | 3,235,000            |
| Interest and fiscal charges                                      | 2,319,727            |
| Administration, issuance and arbitrage fees                      | 560,422              |
| <b>Total Expenditures</b>  | <b>26,983,427</b>    |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> | <b>(12,312,258)</b>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                            |                      |
| Bond proceeds, including premiums                                | 31,797,250           |
| Payment to refunding escrow agent                                | (31,347,282)         |
| Operating transfers in   | 728,738              |
| Operating transfers out  | (728,738)            |
| <b>Total Other Financing Sources (Uses)</b>                      | <b>449,968</b>       |
| <b>Net Change in Fund Balances</b>                               | <b>(11,862,290)</b>  |
| <b>Fund Balances - Beginning of Year</b>                         | <b>48,576,193</b>    |
| <b>Fund Balances - End of Year</b>                               | <b>\$ 36,713,903</b> |

**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, 2006**

Net change to fund balance - total governmental funds \$ (11,862,290)

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                       | (31,797,250) |
| Payment to refunding escrow agent                 | 31,347,282   |
| Deferred issuance costs on the advanced refunding | 121,456      |

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 | 11,326 |
|--|--------|

|   |        |
|---|--------|
| Amortization of premiums/deferred issuance costs received on<br>long-term debt does not use current financial resources but is<br>recorded as a reduction of interest expense on the statement of<br>net assets | 21,040 |
|---|--------|

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:<br>Bonds payable | 3,235,000 |
|--|-----------|

|   |                |
|---|----------------|
| Change in Net Assets of Governmental Activities | \$ (8,923,436) |
|---|----------------|

#### 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 made no changes this year to its estimate of total project costs, which remains 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, 2006, 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, 2006. 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, 2006.

#### 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. 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.

#### G. 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, 2006, the Authority was due \$2,242,400 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, 2006, 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, 2006, 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 Treasurer**

Cash at June 30, 2006, consisted of the following:

|                         |               |
|-------------------------|---------------|
| Cash in County Treasury | <u>2006</u>   |
|                         | \$ 25,214,029 |

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, 2006, 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.

Required disclosures for the Authority's deposit and investment risks at June 30, 2006, 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 1999/2005 refunding bonds and 2005A Tax Bonds in seven separate accounts each: a principal fund, an interest fund, a revenue fund, a reserve fund, a sinking account, a project or escrow fund, and a "good faith" deposit account.

At June 30, 2006, the Authority's deposit balances with the fiscal agent totaled \$9,259,224. Required disclosures for the Authority's deposit and investment risks at June 30, 2006, 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<br>June 30, 2005 | Additions     | Deletion        | Balance<br>June 30, 2006 | Amounts<br>Due Within<br>One Year |
|---|--------------------------|---------------|-----------------|--------------------------|-----------------------------------|
| 1999 Series A Bonds   | \$ 39,370,000            | \$            | \$ (31,930,000) | \$ 7,440,000             | \$ 2,375,000                      |
| 2005 Series A Bonds   | 13,655,000               |               | (830,000)       | 12,825,000               | 855,000                           |
| Series 2005 Tax Refunding Bonds                                 | --                       | 29,710,000    | (130,000)       | 29,580,000               | 50,000                            |
| Amortization on Series 2005 Tax Refunding Bonds                 | --                       | 2,087,250     | (160,558)       | 1,926,692                | --                                |
| Less: Amortization on Deferred Refunding on 1999 Series A Bonds | =                        | (1,813,238)   | 139,518         | (1,674,220)              | =                                 |
|   | \$ 53,025,000            | \$ 29,983,512 | \$ (32,911,040) | \$ 50,097,472            | \$ 3,280,000                      |

Annual debt service requirements are as follows:

| Fiscal Year<br>Ending<br>June 30     | Governmental Activities<br>Bonds Payable |                   |
|--------------------------------------|--|-------------------|
|                                      | Principal                                | Interest          |
| 2007                                 | \$ 3,280,000                             | \$ 2,150,562      |
| 2008                                 | 3,415,000                                | 2,018,787         |
| 2009                                 | 3,565,000                                | 1,870,225         |
| 2010                                 | 3,720,000                                | 1,712,497         |
| 2011                                 | 3,865,000                                | 1,574,435         |
| 2012-2016                            | 21,865,000                               | 5,301,980         |
| 2017-2018                            | <u>10,135,000</u>                        | <u>727,100</u>    |
| Subtotal                             | 49,845,000                               | <u>15,355,586</u> |
| Unamortized premiums                 | 1,926,692                                |                   |
| Less: Unamortized Deferred refunding | <u>(1,674,220)</u>                       |                   |
| Total                                | \$ 50,097,472                            | \$ 15,355,586     |

Long-term liabilities at June 30, 2006, consisted of the following:

|  | Date of<br>Issue | Maturity | Interest<br>Rates | Annual<br>Principal<br>Installments | Original<br>Issue<br>Amount | Outstanding at<br>June 30, 2006 |
|--|------------------|----------|-------------------|-------------------------------------|-----------------------------|---------------------------------|
| <b>Governmental activities</b>   |                  |          |                   |                                     |                             |                                 |
| <b>Bonds Payable</b>   |                  |          |                   |                                     |                             |                                 |
| 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                | \$7,440,000                     |
| Series 2005 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.)            |                  |          |                   |                                     |                             |                                 |
| Series 2005 A  | 03/01/2005       | 2018     | 3.00-4.00%        | \$830,000-\$1,315,000               | <u>13,655,000</u>           | <u>12,825,000</u>               |
| 2005 Series Tax Refunding Bonds (to partially refund the 1999 Series A Bonds, and to pay the costs of issuance of the Series 2005 Tax Refunding Bonds.)  |                  |          |                   |                                     |                             |                                 |
| 2005 Series Tax Refunding Bonds  | 07/12/2005       | 2018     | 3.20-5.00%        | \$55,000-\$3,870,000                | <u>29,710,000</u>           | <u>29,580,000</u>               |
| Total bonds payable  |                  |          |                   |                                     | \$87,015,000                | \$49,845,000                    |

Advance Refunding

The Authority issued \$29,710,000 of limited tax refunding bonds to partially refinance the 1999 Series A bonds and to pay costs related to the issuance of the bonds. The proceeds of the refunded bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt payments in accordance with the schedule of remaining payments due. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,813,738. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$1,285,498 and resulted in an economic gain of \$905,758.

Note 3: Bonds Payable (continued)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 Authority did not pay any 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, 2006, the fund balance was designated as follows:

## Unreserved – designated:

City of American Canyon \$ 1,206,626  
 City of Calistoga 736,962  
 City of Napa 22,814,333  
 City of St. Helena 901,693  
 Town of Yountville 147,470  
 Unincorporated – County of Napa 1,479,947  
 City of St. Helena Bond 8,920,135

Total\$ 36,207,166

Note 5: Related Party Transactions

During the fiscal year ended June 30, 2006, the Authority paid the County of Napa, a related party, \$114,902, of which \$106,434 was for Measure A projects administration fees and \$8,468 for legal services.

The Authority paid \$18,000,000 to the City of Napa, \$18,837 to the City of Calistoga, \$1,775,615 to the City of St. Helena, \$266,203 to the Town of Yountville, \$445,138 to the City of American Canyon, and \$239,090 to the County of Napa for their respective flood control projects.

**REQUIRED SUPPLEMENTARY INFORMATION**Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budgetary Comparison Schedule For the Year Ended June 30, 2006

|  | Budgeted Amounts |               | Actual Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------|----------------|---|
|  | Original         | Final         |                |   |
| Budgetary Fund Balances, End of Year,<br>as Reported June 30, 2005 | \$ 48,576,193    | \$ 48,576,193 | \$ 48,576,193  | \$ --   |
| Resources (inflows):   |                  |               |                |   |
| Taxes  | 11,963,210       | 11,963,210    | 13,125,355     | 1,162,145   |
| Revenue from use of money and property                             | 500,000          | 500,000       | 1,433,447      | 933,447   |
| Other revenue  | --               | --            | 112,367        | 112,367   |
| Bond proceeds, including premiums                                  | --               | --            | 31,797,250     | 31,797,250  |
| Amounts Available For Appropriation                                | 12,463,210       | 12,463,210    | 46,468,419     | 34,005,209  |
| Charges to Appropriations (outflows):                              |                  |               |                |   |
| Current:   |                  |               |                |   |
| Member project charges   | 15,776,000       | 22,390,763    | 20,744,883     | 1,645,880   |
| Legal charges  | 26,000           | 26,000        | --             | 26,000  |
| Administration charges   | 100,000          | 100,000       | 89,468         | 10,532  |
| Professional services  | 70,000           | 70,000        | 25,459         | 44,541  |
| Other charges  | 35,000           | 35,000        | 8,468          | 26,532  |
| Debt service:  |                  |               |                |   |
| Principal  | 3,015,000        | 3,015,000     | 3,235,000      | (220,000)   |
| Interest charges   | 2,515,250        | 2,512,850     | 2,319,727      | 193,123   |
| Administration and issuance fees                                   | --               | 2,400         | 560,422        | (558,022)   |
| Other financing uses   | --               | --            | 31,347,282     | (31,347,282)  |
| Total Charges to Appropriations                                    | 21,537,250       | 28,152,013    | 58,330,709     | (30,178,696)  |
| Budgetary Fund Balances, End of Year                               | \$ 39,502,153    | \$ 32,887,390 | \$ 36,713,90   | \$ 3,826,513  |

## 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 which 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 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, 2006, and have issued our report thereon dated September 14, 2006. 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

This report is intended for the information of the audit committee, management, state agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, LLP  
A Gallina LLP Company

September 14, 2006  
Roseville, CA