

Flood Protection Projects
in
Napa County



A Tradition of Stewardship
A Commitment to Service

A report from the
Financial Oversight Committee
September 2008

This report provides an overview of financial activities conducted by Napa County and the Cities and Towns within the County under the structure of Measure A for Flood Protection Projects.

More detailed financial information is available at
www.napaflooddistrict.org/FOC

Citizens of Napa County,

Ten years ago, in March 1998, 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.

Facts about the FOC:

- The FOC meets quarterly, usually on the second month of each quarter (February, May, August, and November) on the first Wednesday of those months at 5:30pm.
- The next meeting will be held at 5:30pm on November 5.
- Meetings are open to the public and are held at the Flood Control District conference room at 804 First Street in Napa.
- The FOC is currently composed of representatives of the agricultural industry, environmental community, business community, Friends of the Napa River, and other organizations.
- For the FOC to do its job, civic-minded individuals are needed to serve as volunteers. If you are interested in serving as a member of the FOC, please contact the County Executive Office at 707-253-4421.

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.

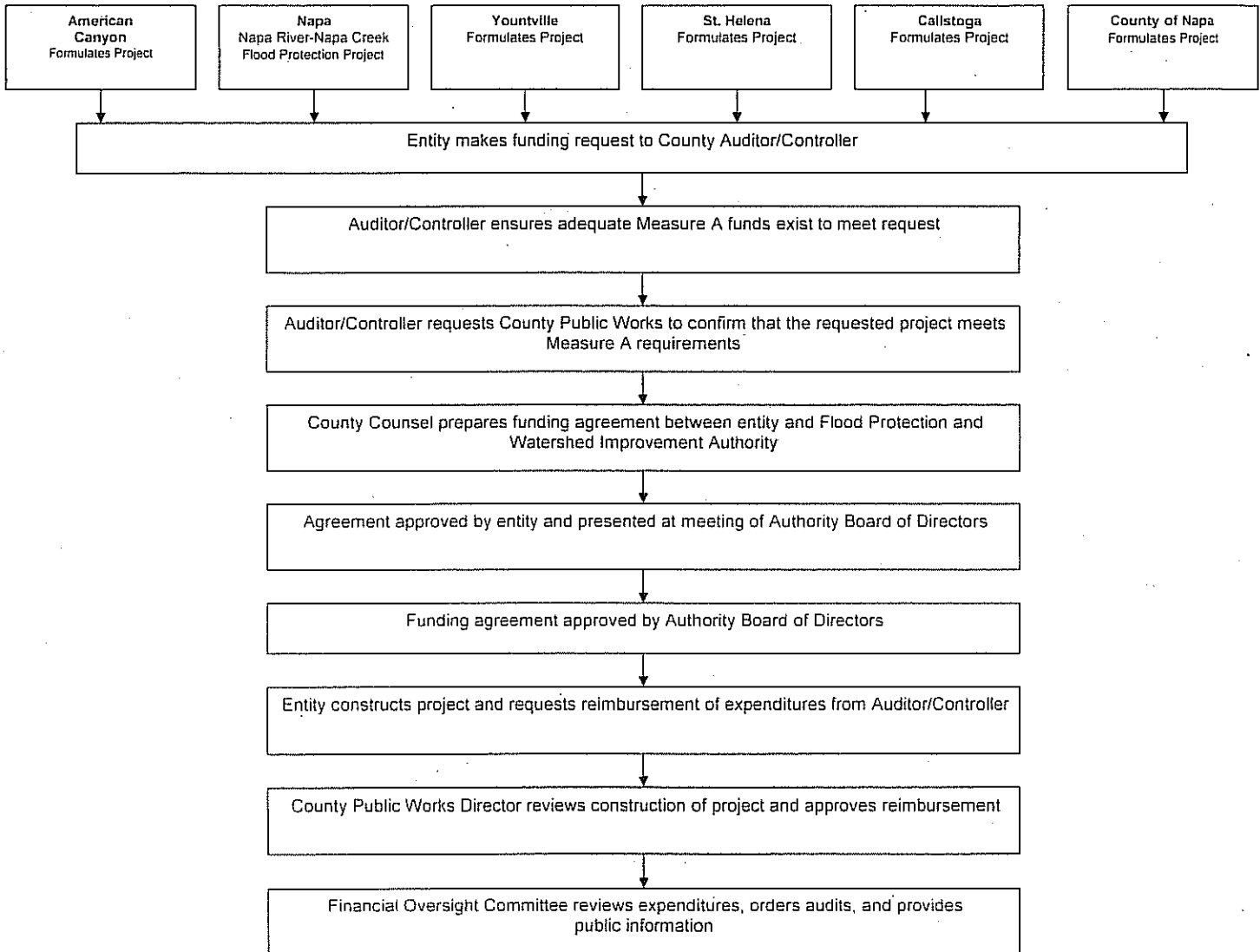
Sincerely,
Carl Ebbeson
Chairman, Financial Oversight Committee
September 2008

Answers to common questions

1. 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



2. How is the Flood Protection sales tax revenue divided among these entities?

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 were used for the first eight years of Measure A, then reviewed and adjusted each year thereafter by the County Auditor-Controller. This review ensures that each entity receives revenues proportionate to their sales tax generation. Beginning in year nine, 2006-2007, the allocation percentages are revised using the prior year average annual sales percentages received by each entity. **Chart 1** below provides annual percentage allocations for each year by entity.

Chart 1
Sales Tax Percentage Allocation

Percentage Allocation		City of Napa & Vicinity	City of American Canyon	City of Calistoga	City of St. Helena	Town of Yountville	County of Napa	Total
Year	Fiscal Period							
1 thru 8	1998-2006	66.60%	6.70%	3.30%	11.50%	2.30%	9.60%	100.0%
9	2006-2007	60.26%	7.35%	3.00%	9.98%	2.47%	16.94%	100.0%

3. How is the sales tax revenue being spent in each jurisdiction?

Chart 2 on the next page provides a detailed revenue and expenditure statement by jurisdiction from the inception of the sales tax through the end of fiscal year 2006-2007. Revenues include Measure A sales tax revenues, interest earned and bond issues. Expenditures include bond payments and issuance costs, project expenses and administrative expenses.

The sales tax revenue line is the total received through the first nine years of the tax, allocated to each entity. 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 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 predetermined allocation percentages. This agreement created an annual loan from the other Measure A entities to the Napa River-Napa Creek Flood Protection Project (sometimes called the "City of Napa Project") and allowed the Napa River-Napa Creek Flood Protection Project to begin immediately while other communities prepared plans for their flood protection needs. The JPA further directed that the revenues loaned to the Cities would be repaid to the other participants in Measure A starting in year eight (2005-2006). In **Chart 2**, this loan and repayment is shown as revenue to the entities and as expense for the Napa River-Napa Creek FPP. The repayment is \$1.7 million each year; therefore, fiscal year 2006-2007 shows two years of payback.

Also included in the JPA is a provision for establishing a maintenance fund for on-going maintenance of the Napa River-Napa Creek FPP after the project is completed. Starting in year eight (2005-2006) an annual amount of \$351,154, received from the entities in amounts determined per the JPA, is moved to the maintenance reserve. The chart shows two years of this collection.

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

Chart 2
Revenue and Expenditure Statement
From Inception (July 1, 1998) to June 30, 2007

	City of Napa & Vicinity	City of American Canyon	City of Calistoga	City of St. Helena	Town of Yountville	County of Napa	Future Maintenance Fund	Total
Revenue								
Sales Tax Revenue	\$ 82,533,989	\$ 3,324,860	\$ 1,549,762	\$ 5,333,455	\$ 1,133,842	\$ 5,671,089	\$ 0	\$ 99,547,798
Interest Revenue	4,430,495	466,255	258,060	723,175	130,398	724,221	37,033	6,769,640
Bond Proceeds	44,099,968	0	0	13,655,000	0	0	0	57,754,968
Bond Interest Revenue	4,545,193	0	0	738,409	0	0	0	5,283,602
Repayment of Advance to Napa & Vicinity	0	682,036	335,928	1,170,659	234,132	977,245	0	3,400,000
Maintenance Fund Contributions	0	0	0	0	0	0	702,308	702,308
Miscellaneous Revenue	124,730	3,288	1,624	5,661	1,132	4,724	0	141,169
Total Revenues	135,734,376	4,476,449	2,145,374	21,626,360	1,499,504	7,378,079	739,341	173,599,485
Expenditures								
Project Expenses	81,269,775	1,693,920	243,209	13,615,304	971,175	1,685,338	0	99,478,721
Bond Principal Payments	9,110,000	0	0	1,685,000	0	0	0	10,795,000
Bond Interest Payments & Fiscal Charges	15,695,813	0	0	1,174,823	0	0	0	16,870,636
Bond Issuance Admin & Arbitrage Payments	2,163,622	0	0	471,231	0	0	0	2,634,853
Repayment of advance to Napa & Vicinity	3,400,000	0	0	0	0	0	0	3,400,000
Future Maintenance Fund	410,000	0	38,000	128,616	26,308	99,384	0	702,308
Administrative Expenses	1,244,121	17,550	7,861	26,794	5,957	33,239	0	1,335,522
Total Expenditures	113,293,331	1,711,470	289,070	17,101,758	1,003,440	1,817,951	0	135,217,040
Fund Balance as of 6/30/07	\$ 22,441,045	\$ 2,764,979	\$ 1,856,304	\$ 4,524,592	\$ 496,064	\$ 5,560,118	\$ 739,341	\$ 38,362,445

Note: Total Fund Balance ties to Audited Financial Statements for fiscal year ended 06/30/07. However the breakdown by jurisdiction differs from the audited statements due to a reallocation of interest on the advance to the City of Napa & Vicinity. The reallocation will be incorporated in the audit for fiscal year ending 06/30/08.

Note: This chart only includes Measure A and Bond funded activity. State and Federal projects and reimbursements are not included as they are the responsibility of the District.

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

Chart 3 illustrates that actual receipts are 44% higher than originally projected. Original projections were based on actual sales tax receipts for fiscal year 1995-1996 with a 3% increase each year. The actual increase of revenue received has allowed the jurisdictions to absorb unanticipated costs, increases in property values, and increases in project costs due to economic conditions.

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

Chart 3
Measure A Sales Tax
Annual Projections Compared to Actual Receipts

Sales Tax Collection Year	Original Estimate	Actual Receipts	Increase
1998 - 1999	\$ 6,813,000	\$ 7,303,432	7%
1999 - 2000	\$ 7,018,000	\$ 10,050,117	43%
2000 - 2001	\$ 7,228,000	\$ 10,299,475	42%
2001 - 2002	\$ 7,445,000	\$ 10,694,334	44%
2002 - 2003	\$ 7,669,000	\$ 10,413,558	36%
2003 - 2004	\$ 7,899,000	\$ 11,948,764	51%
2004 - 2005	\$ 8,136,000	\$ 11,545,826	42%
2005 - 2006	\$ 8,380,000	\$ 13,125,355	57%
2006 - 2007	\$ 8,631,000	\$ 14,166,937	64%
Totals	<u>\$ 69,219,000</u>	<u>\$ 99,547,798</u>	<u>44%</u>

5. When does the Flood Protection sales tax end?

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.

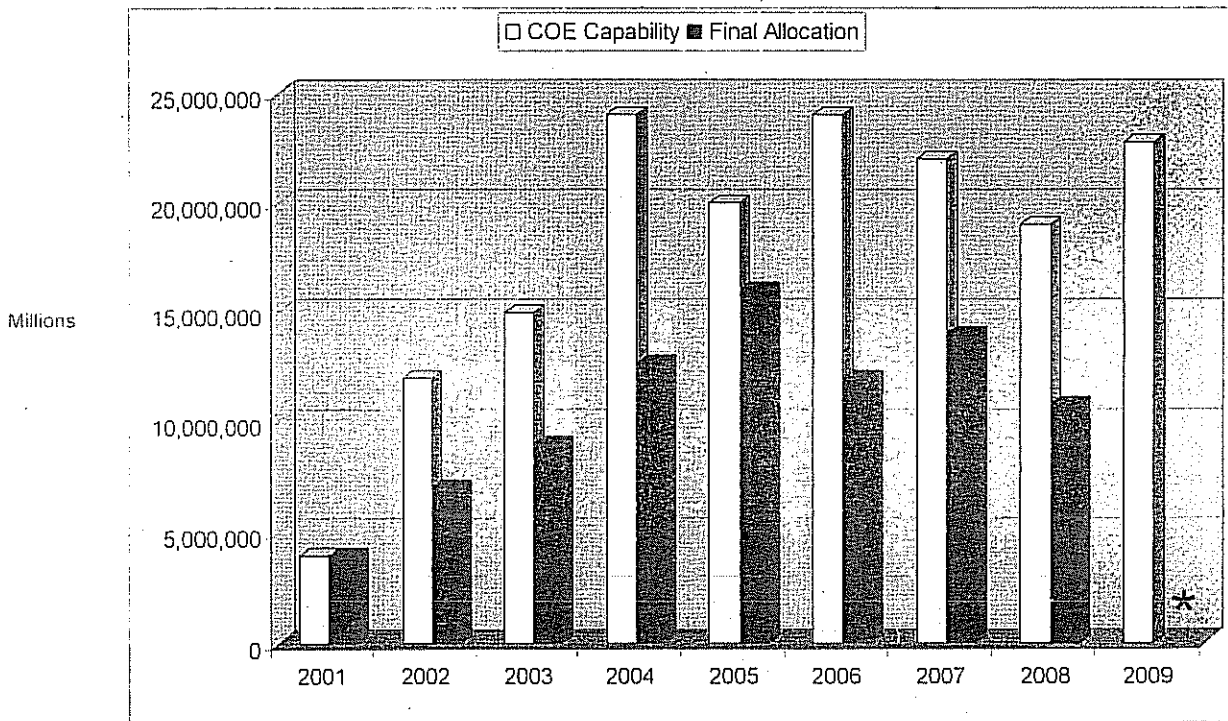
The Financial Oversight Committee is tasked with making sure Flood Protection expenditures are appropriate under the guidelines of the Measure A ordinance, and with providing public information related to their review of expenditures. Questions 1-5 in this publication are directly related to the tasks of the FOC. The FOC publishes only audited figures. That is why the figures cited in questions 1-5, through FY 2006-07, are the most recent that can be appropriately provided by the FOC in this report.

The following questions and answers 6-10 about the Napa River-Napa Creek Flood Protection Project are outside the scope of the FOC, and are provided here as useful information courtesy of the Napa County Flood Control and Water Conservation District Board of Directors.

6. Measure A provides the local share of flood protection projects, but what about funding from the federal government and from the State of California?

Federal Funding: For the Napa River—Napa Creek Flood Protection Project, the federal government provides funding through allocations to the Corps of Engineers. Allocations vary from year to year. Over the last eight fiscal years of construction, the COE has requested \$140 million for the Napa Project, but the White House and Congress have allocated only about \$85.5 million. These short-falls have caused delays in construction of the Project. **Chart 4: COE Funding History** shows the year-to-year capability versus allocation.

Chart 4: Corps of Engineers (COE) Funding History

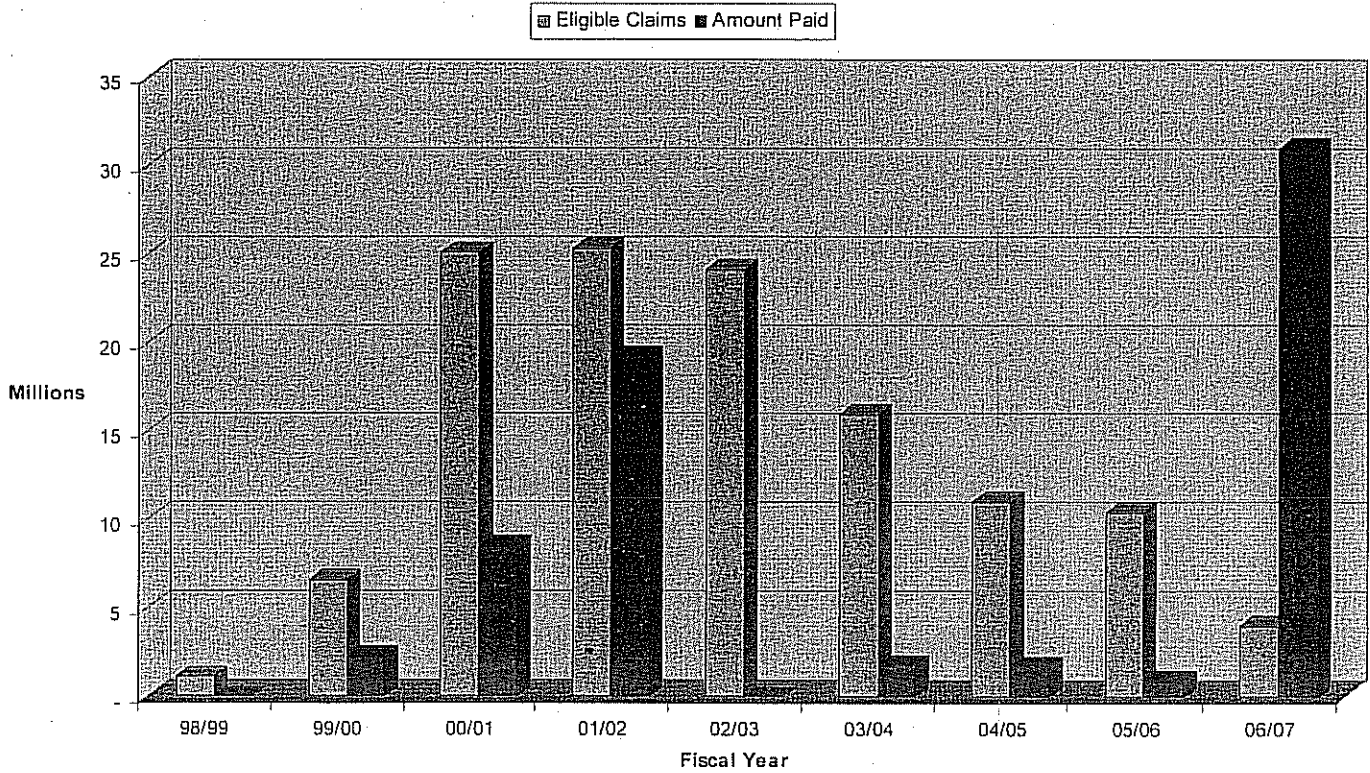


* Final allocation not yet known.

Question 6 (continued):

State Funding: Funding for the Napa River-Napa Creek 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 2007, the Napa Flood District as the local sponsor has submitted \$153 million in claims for Subvention Fund reimbursements. Of this amount, \$123 million is expected to be eligible for reimbursement. The District has received \$65.3 million in reimbursements as of June 30, 2007. 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 amount of eligible claims filed and the reimbursements received in given fiscal years.

Chart 5: Subvention Reimbursement History



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

Here is a list of other Measure A fund expenditures as of June 30, 2007, as shown in Chart 2 on page 5:

- The City of American Canyon is implementing a Flood Control and Storm Drain master Plan and has spent \$1,711,470 of Measure A funds.
- The City of Calistoga's projects include the Kimball Water Treatment Plant Maintenance Dredging Project, work on Kimball reservoir, and the Grant Street Drainage Improvements. \$289,070 of Measure A funds have been spent.
- The County of Napa receives Measure A funds for use in the unincorporated areas of the County and has expended \$1,817,961 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, the Angwin-Deer Park area study, and flood studies in the area from Oakville Cross Road to Oak Knoll Avenue.
- The City of St. Helena has completed the planning and engineering phase and their Comprehensive Flood Project continues to move forward. \$17,101,768 in Measure A funds have been spent
- 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. A total of \$1,003,440 in Measure A funds have been expended.

8. Are expenditures on track with initial estimates?

The Napa River-Napa Creek Flood Protection Project was the only Project with a schedule and cost estimate at the time of the Measure A vote in March 1998. The original cost estimate for this Project was \$180 million. As of June 30, 2007, the revised cost estimate is \$310.7 million. There have been no significant changes to the scope of the Project to date. Increased costs are primarily due to unexpected rapid increases in construction costs and land values; modifications to earlier designs for railroad relocation and bridge replacements; additional utility relocations, and cleanup of contamination discovered during construction.

9. Are shortfalls expected?

Chart 3 on page 6 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 River-Napa Creek Flood Protection Project, chart 4 on page 7 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.

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

The Flood District estimates about 50% of the needed work has been completed. The table below shows components that have been completed and components that are yet to be constructed. Estimated start dates are subject to change based on the level of funding available.

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
Hatt to First Floodwall	2008
COMPONENTS UNDER CONSTRUCTION	
There are no components under construction at this time.	
NEXT MAJOR COMPONENT	ESTIMATED START
Railroad relocation phase 3	2008
FUTURE COMPONENTS	ESTIMATED START
Bypass excavation, oxbow floodwalls, Napa Creek terraces and culverts	2011
East side floodwall/Tulocay to Third St	2014
Tulocay pump station	2014
West side floodwall/Imola to Hatt	2015
Imola detention basin and pump station	2015
Floodwall and levees north of the oxbow	2016
Soscol detention basin and pump station	2016

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, 2007
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, 2007, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements, 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, 2007, 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 February 6, 2008, 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
Roseville, California
February 6, 2008

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, 2007. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority collected \$14.2 million in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A.
- The Authority provided \$8,587,836 to its members for their respective flood control projects.
- The cash position of the Authority remained strong with over \$33.9 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 *longterm* 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		
	2007	2006	Increase (Decrease)
Current assets	\$ 39,126,305	\$ 36,715,653	\$ 2,410,652
Total Assets	39,126,305	36,715,653	2,410,652
Current liabilities	4,242,976	3,371,357	871,619
Long-term liabilities	43,381,432	46,817,472	(3,436,040)
Total liabilities	47,624,408	50,188,829	(2,564,421)
Net Assets (Deficit)	\$ (8,498,103)	\$ (13,473,176)	\$ 4,975,073

The Authority's net assets increased \$5 million from \$(13,473,176) at June 30, 2006, to \$(8,498,103) at June 30, 2007. The increase is primarily due to increased revenues and decreased project costs. Net assets show a deficit as of June 30, 2006 and June 30, 2007 because of the large outstanding principal of the 2005 Series A Limited Tax Bonds and the 2005 Refunding Limited Tax Bonds. Total liabilities decreased \$2,564,421 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, 2007 and the expenditures incurred are as follows:

Condensed Statement of Activities For the Fiscal Year Ended June 30			
	2007	2006	Increase (Decrease)
Revenues:			
Sales and use taxes	\$ 14,166,937	\$ 13,125,355	\$ 1,041,582
Investment earnings	1,651,191	1,433,447	217,744
Other revenue --	0	112,367	(112,367)
Total Revenues	15,818,128	14,671,169	1,146,959
Total Expenses	10,843,055	23,594,605	(12,751,550)
Net Increase (Decrease) in Net Assets	4,975,073	(8,923,436)	\$ 13,898,509
Net Assets, beginning	(13,473,176)	(4,549,740)	
Net Assets, ending	\$ (8,498,103)	\$ (13,473,176)	

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, 2007. The most significant change in expenditures was the overall decrease 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, sitting as the governing body for the Authority, 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 \$9,761,475. This increase is due mainly to an increase in project charges for the Cities of American Canyon and St. Helena and unincorporated County of Napa.

The favorable revenue variance of \$4,199,492 is due to higher than anticipated receipts from sales and use taxes and higher interest rates on invested funds.

The favorable expenditure variance of \$13,342,539 reflects lower Napa flood project costs and anticipated use of Measure A funds which were not required due to state subventions received.

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 \$2,375,000 was made during this fiscal year. The principal balance outstanding at June 30, 2007, is \$5,065,000 (after advance refunding of \$29,655,000). A principal payment of \$2,475,000 is due in fiscal year 2007-2008. The bonds will be fully paid for by June 2009.

On July 12, 2007 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 \$50,000 was made during this fiscal year. The principal balance outstanding at June 30, 2007, is \$29,530,000. A principal payment of \$55,000 is due in fiscal year 2007-2008. 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 \$855,000 was made during this fiscal year. The principal balance outstanding at June 30, 2007, is \$11,970,000. A principal payment of \$885,000 is due in fiscal year 2007-2008. 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, California 94559.

BASIC FINANCIAL STATEMENTS GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets (Deficit)
June 30, 2007

		Governmental Activities
ASSETS		
Current Assets:		
Cash and investments in county treasury	\$	33,870,879
Cash with fiscal agent		2,532,974
Due from other governments		2,722,452
Total Assets	\$	39,126,305
LIABILITIES		
Current Liabilities:		
Accounts payable	\$	1,750
Due to other governments		742,110
Accrued interest		84,116
Bonds payable, current portion		3,415,000
Total Current Liabilities		4,242,976
Long-Term Liabilities:		
Bonds payable, net of premiums and discounts		43,381,432
Total Liabilities		47,624,408
NET ASSETS (DEFICIT)		
Unrestricted (deficit)		(8,498,103)
Total Net Assets (Deficit)		(8,498,103)
Total Liabilities and Net Assets	\$	39,126,305

Statement of Activities
For the Fiscal Year Ended June 30, 2007

		Governmental Activities
EXPENSES		
Public Protection		
Project charges	\$	8,587,836
Administration charges		93,323
Professional services		17,005
Other charges		15,960
Interest and fiscal charges		2,124,031
Administration issuance and arbitrage fees		4,900
Net Program Expense		10,843,055
GENERAL REVENUES		
Sales & use tax		14,166,937
Interest income		1,651,191
Total General Revenues		15,818,128
Change in Net Assets		4,975,073
Net Assets - Beginning of Year		(13,473,176)
Net Assets - End of Year	\$	(8,498,103)

BASIC FINANCIAL STATEMENTS FUND FINANCIAL STATEMENTS

Balance Sheet
Governmental Funds
June 30, 2007

ASSETS		
Cash and investments in county treasury	\$	33,870,879
Cash with fiscal agent		2,532,974
Due from other governments		2,722,452
Total Assets	\$	39,126,305
LIABILITIES		
Accounts payable	\$	1,750
Due to other governments		742,110
Total Liabilities		743,860
FUND BALANCES		
Fund Balances:		
Reserved for encumbrances		868,999
Unreserved:		
Designated		37,513,446
Total Fund Balances		38,382,445
Total Liabilities and Fund Balances	\$	39,126,305

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets (Deficit) - Governmental Activities
June 30, 2007

Fund balance - total governmental funds (page 9)	\$	38,382,445
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		(84,116)
Bonds payable		<u>(46,796,432)</u>
Net Assets (Deficit) of Governmental Activities (page 7)	\$	(8,498,103)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

REVENUES		
Sales & use tax	\$	14,166,937
Interest income		<u>1,651,191</u>
Total Revenues		15,818,128
EXPENDITURES		
Project charges		8,587,836
Administration charges		93,323
Professional services		17,005
Other charges		15,960
Debt Service:		
Principal		3,280,000
Interest and fiscal charges		2,150,562
Administration, issuance and arbitrage fees		<u>4,900</u>
Total Expenditures		14,149,586
Net Change in Fund Balances		1,668,542
Fund Balances - Beginning of Year		<u>36,713,903</u>
Fund Balances - End of Year \$		38,382,445

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, 2007

Net change to fund balance - total governmental funds (page 11)	\$	1,668,542
Amounts reported for governmental activities in the statement of activities are different because:		
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		5,491
Amortization of premiums/deferred issuance costs received on long-term debt does not use current financial resources but is recorded as a reduction of interest expense on the statement of 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:		
Bonds payable		<u>3,280,000</u>
Change in Net Assets of Governmental Activities (page 8)	\$	4,975,073

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 to component unit financial statements 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.

Notes to Component Unit Financial Statements
For the Fiscal Year Ended June 30, 2007

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 1/2% 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 its estimate of total project costs to \$310.7 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 bypass" 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, 2007, 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, 2007. 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, 2007.

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, 2007, the Authority was due \$2,722,452 from the State of California.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

I. 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, 2007 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, 2007 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).

J. 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, 2007 consisted of the following:

Cash in County Treasury	\$ 33,870,879
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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, 2007, 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, 2007, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	573 days

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 five separate accounts each: a principal fund, an interest fund, a revenue fund, a reserve fund and a project or escrow fund.

At June 30, 2007 the Authority's deposit balances with the fiscal agent totaled \$2,532,974. Required disclosures for the Authority's deposit and investment risks at June 30, 2007, were as follows:

Credit risk	Not applicable
Custodial risk	None
Concentration of credit risk	Not applicable
Interest rate risk	Not applicable

Note 3: Bonds Payable

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

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
1999 Series A Bonds	\$ 7,440,000	--	\$ (2,375,000)	\$ 5,065,000	\$ 2,475,000
2005 Series A Bonds	12,825,000	--	(855,000)	11,970,000	885,000
Series 2005 Tax Refunding Bonds	29,580,000	--	(50,000)	29,530,000	55,000
Less deferred amounts:					
For issuance premiums	1,926,692	--	(160,558)	1,766,134	--
For refunding	(1,674,220)	--	139,518	(1,534,702)	--
Total Governmental Activities					
Long-term liabilities	\$ 50,097,472	\$ --	\$ (3,301,040)	\$ 46,796,432	\$ 3,415,000

Annual debt service requirements are as follows:

Fiscal Year Ending June 30	Governmental Activities Bonds Payable	
	Principal	Interest
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	4,000,000	1,433,885
2013-2017	22,815,000	4,349,095
2018	5,185,000	246,100
Subtotal	46,565,000	13,205,024
Deferred amounts - net	231,432	--
Total	\$ 46,796,432	\$ 13,205,024

Long-term liabilities at June 30, 2007 consisted of the following:

	Date of Issue	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
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	\$ 5,065,000
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	13,655,000	11,970,000
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-\$3,970,000	29,710,000	29,530,000
Total bonds payable					\$ 87,015,000	\$ 46,565,000

Advance Refunding

On July 12, 2005 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. At June 30, 2007, the outstanding bonds considered defeased was \$29,655,000.

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, 2007 the fund balance was designated as follows:

Unreserved, designated:

City of American Canyon	\$ 2,781,916
City of Calistoga	1,827,655
City of Napa	22,116,577
City of St. Helena	4,093,622
Town of Yountville	530,802
Unincorporated County of Napa	3,968,743
City of St. Helena Bond	2,194,131
Total	\$ 37,513,446

Note 5: Related Party Transactions

During the fiscal year ended June 30, 2007, the Authority paid the County of Napa, a related party, \$39,465, of which \$32,005 was for Measure A projects administration fees and \$7,460 for legal services.

The Authority paid \$117,470 to the City of Calistoga, \$264,295 to the Town of Yountville, \$742,110 to the City of American Canyon, \$6,994,154 to the City of St. Helena, and \$469,807 to the County of Napa for their respective flood control projects.

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.

REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budgetary Comparison Schedule For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Budgetary Fund Balances Beginning of Year	\$ 36,713,903	\$ 36,713,903	\$ 36,713,903	\$ --
Resources (inflows):				
Taxes	11,347,250	11,347,250	14,166,937	2,819,687
Revenue from use of money and property	266,986	266,986	1,651,191	1,384,205
Other revenue	4,400	4,400	--	(4,400)
Amounts Available For Appropriation	<u>11,618,636</u>	<u>11,618,636</u>	<u>15,818,128</u>	<u>4,199,492</u>
Charges to Appropriations (outflows):				
Current:				
Project charges	8,444,154	11,711,475	8,587,836	3,123,639
Legal charges	26,000	26,000	--	26,000
Administration charges	115,000	115,000	93,323	21,677
Professional services	70,000	70,000	17,005	52,995
Other charges	35,000	35,000	15,960	19,040
Debt service:				
Principal	3,015,000	3,015,000	3,280,000	(265,000)
Interest charges	2,515,250	2,514,750	2,150,562	364,188
Administration and issuance fees	4,400	4,900	4,900	--
Other financing uses	10,000,000	10,000,000	--	10,000,000
Total Charges to Appropriations	<u>24,224,804</u>	<u>27,492,125</u>	<u>14,149,586</u>	<u>13,342,539</u>
Budgetary Fund Balances End of Year	\$ 24,107,735	\$ 20,840,414	\$ 38,382,445	\$ 17,542,031

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, 2007, and have issued our report thereon dated February 6, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Napa County Flood Protection and Watershed Improvement Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited

purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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 or other matters that are required to be reported under *Government Auditing Standards*.

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
 February 6, 2008
 Roseville, California