

**LOCAL AGENCY FORMATION
COMMISSION OF NAPA COUNTY**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2012**

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Audit Report
For the Year Ended June 30, 2012

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LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Commission Membership

For the Year Ended June 30, 2012

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Bill Dodd	Chair Napa County Board of Supervisors	May 2014
Lewis Chilton	Vice Chair City Selection Committee	May 2013
Brian J. Kelly	Member Public Member	May 2014
Brad Wagenknecht	Member Napa County Board of Supervisors	May 2016
Joan Bennett	Member City Selection Committee	May 2015
Mark Luce	Alternate Member Napa County Board of Supervisors	May 2013
Gregory Rodeno	Alternate Member Public Member	May 2016
Juliana Inman	Alternate Member City Selection Committee	May 2013

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Local Agency Formation Commission of Napa County
Napa, California

We have audited the accompanying basic financial statements of the Local Agency Formation Commission of Napa County (Commission), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. 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 Commission'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 Commission as of June 30, 2012, 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 November 2, 2012, on our consideration of the Commission's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States

Board of Commissioners
Local Agency Formation Commission
of Napa County

of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gallina LLP

Roseville, California
November 2, 2012

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis

The Local Agency Formation Commission of Napa County (Commission) administers a section of California Government Code now known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is delegated regulatory and planning responsibilities to coordinate the logical formation and development of local agencies in a manner preserving agricultural and open-space resources, promoting the orderly extension of municipal services, and discouraging urban sprawl. Key duties include regulating boundary changes through annexations or detachments, approving city incorporations or disincorporations, and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies to inform its regulatory activities, including establishing and updating spheres of influence for all cities and special districts within its jurisdiction. Spheres are planning tools used by the Commission to designate the territory it believes represents the appropriate and probable future service area of the affected agency. All jurisdictional changes, such as annexations, must be consistent with the spheres of the affected agencies with limited exceptions. As of June 30, 2012, there are currently 23 cities and special districts subject to Commission jurisdiction in Napa County.

The Commission was first established in 1963 as an office within the County of Napa (County). From 1963 to 2000, 100% of the Commission's annual budget was funded by the County. On July 1, 2001, in conjunction with the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became autonomous of the County in terms of fulfilling its statutory duties and responsibilities. This transition was highlighted by the Commission appointing its own Executive Officer and Counsel as well as altering its funding to include contributions from the five cities in Napa County: American Canyon; Calistoga; Napa; St. Helena; and Yountville. The County is now responsible for funding 50% of the Commission's annual budget with the remaining portion divided among the five cities based on a locally adopted formula as provided under Government Code Section 56381.

This narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2012, is offered by the Commission's manager, the Executive Officer, to provide greater context to the audit performed by the Commission's independent auditor, GALLINA LLP. Please read it in conjunction with the Commission's Financial Statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The following Statement of Net Assets and Governmental Fund Balance Sheet, and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, provide information about the activities of the Commission. The financial statements also include various footnote disclosures, which further describe the Commission's activities.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis (continued)

Fund Financial Statements

A *fund* is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than government-wide financial statements, it is useful to compare the information presented. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government wide statements.

The Commission adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information (RSI)

RSI is presented concerning the Commission's General Fund budgetary schedule. The Commission adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

FINANCIAL ANALYSIS OF THE COMMISSION

Net Assets

The Commission has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis (continued)

Condensed Statement of Net Assets As of June 30,

	2012	2011	Variance
Current assets	\$ 173,948	\$ 181,782	\$ (7,834)
Noncurrent assets	7,864	11,795	(3,931)
Total assets	181,812	193,577	(11,765)
Current liabilities	14,436	12,570	1,866
Long term liabilities	39,725	37,520	2,205
Total liabilities	54,161	50,090	4,071
Net assets:			
Invested in capital assets, net of related debt	7,864	11,795	(3,931)
Unrestricted	119,787	131,692	(11,905)
Total net assets	\$ 127,651	\$ 143,487	\$ (15,836)

State law requires the County and the five cities of Napa County fund the Commission's budget each year. The Commission is also authorized to establish and collect fees for purposes of offsetting agency contributions. It is also the practice of the Commission to make use of its unrestricted fund balance to help cover operating costs to help minimize the fiscal impact on local agencies as long as the balance does not fall below the equivalent of three months of operating expenses. This practice of using the unrestricted fund balance to help cover operating costs occasionally results in budgeting an operating shortfall. For the fiscal year ending June 30, 2012, the Commission budgeted an operating shortfall of (\$32,828). The actual operating shortfall was reduced to (\$15,836) due to lower than anticipated costs in employee health insurance and legal services.

Changes in Net Assets

The government-wide financial statement presented on the following page represents an analysis of the Commission's governmental activities. It should be noted that *Intergovernmental Revenues* represent the amount each agency was required to contribute to the Commission's budget. The sum of these contributions and the fund balance at the beginning of the fiscal year must sum to the adopted budget.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis (continued)

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

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Revenues:			
Intergovernmental	\$ 383,099	\$ 356,020	\$ 27,079
Planning fees	9,087	27,480	(18,393)
Interest income	2,472	2,570	(98)
Total revenues	<u>394,658</u>	<u>386,070</u>	<u>8,588</u>
Expenses:			
Salaries and benefits	298,830	287,968	10,862
Services and supplies	107,733	100,754	6,979
Depreciation	3,931	3,931	--
Total expenses	<u>410,494</u>	<u>392,653</u>	<u>17,841</u>
Change in net assets	(15,836)	(6,583)	(9,253)
Net assets - Beginning of year	<u>143,487</u>	<u>150,070</u>	<u>(6,583)</u>
Net assets - End of year	<u><u>\$ 127,651</u></u>	<u><u>\$ 143,487</u></u>	<u><u>\$ (15,836)</u></u>

Financial Analysis of the Commission's Governmental Fund

As noted earlier, fund accounting is used by the Commission to ensure and demonstrate compliance with finance-related legal requirements.

For the fiscal year ending June 30, 2012, the Commission reported an ending fund balance of \$159,512 for a decrease of \$9,700 from the prior year, which was a planned reduction through the budgeting process.

BUDGETARY HIGHLIGHTS

The Commission practices bottom-line accounting, giving management the discretion to use excess funds in one account to offset deficits in other accounts. This allows management to minimize the fiscal impact of unanticipated increases in salaries and benefits by controlling spending in other accounts.

CAPITAL ASSETS

During fiscal year 2008-2009, the Commission purchased an electronic document management system with a cost of \$19,657. This asset is being depreciated over an estimated useful life of 5 years, using the straight-line depreciation method.

DEBT ADMINISTRATION

With the close of the fiscal year on June 30, 2012, the Commission did not have any long-term obligations outstanding, except for compensated absences totaling \$32,290.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis (continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission is committed to fulfilling its state-mandated mission with as little fiscal impact on local agencies as possible. In preparing the budget for fiscal year 2012-2013 the Commission used a spending baseline to estimate how much it would cost to continue the level of its activities and services at next year's price for labor and supplies. The Commission's adopted fiscal year 2012-2013 budget is \$432,461, an overall percentage increase of 1% from prior year's budget which offsets inflationary increases by a saving on property rental costs resulting from moving to a more efficient office space.

CONTACTING THE COMMISSION

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Through a memorandum of understanding, the County provides certain management and administrative functions, including financial management and accounting. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Local Agency Formation Commission of Napa County
1030 Seminary Street, B
Napa, California, 94559

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Statement of Net Assets June 30, 2012

ASSETS

Current Assets:

Cash in County Treasury	\$	169,718
Imprest cash		100
Prepaid expenses		2,130
Deposits with others		2,000
Total Current Assets		<u>173,948</u>

Non-Current Assets:

Capital assets, net		<u>7,864</u>
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Total Assets	\$	<u><u>181,812</u></u>
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LIABILITIES

Current Liabilities:

Accounts payable	\$	1,635
Accrued salaries		12,801
Total Current Liabilities		<u>14,436</u>

Non-Current Liabilities:

Portion due or payable within one year:		
Compensated absences		7,435
Portion due or payable after one year:		
Compensated absences		<u>32,290</u>
Total Non-Current Liabilities		<u>39,725</u>

Total Liabilities		<u>54,161</u>
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NET ASSETS

Invested in capital assets, net		7,864
Unrestricted		<u>119,787</u>

Total Net Assets		<u>127,651</u>
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Total Liabilities and Net Assets	\$	<u><u>181,812</u></u>
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The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Statement of Activities For the Year Ended June 30, 2012

EXPENSES

Salaries and benefits	\$ 298,830
Services and supplies	107,733
Depreciation expense	3,931
Total Expenses	<u>410,494</u>

PROGRAM REVENUES

Intergovernmental revenues:	
County of Napa	191,550
City of Napa	126,330
City of St. Helena	12,997
City of American Canyon	32,912
City of Calistoga	11,393
Town of Yountville	7,917
Planning fees	9,087
Total Program Revenues	<u>392,186</u>
Net Program Revenue (Expense)	<u>(18,308)</u>

GENERAL REVENUES

Interest income	<u>2,472</u>
Change in Net Assets	(15,836)
Net Assets - Beginning of Year	<u>143,487</u>
Net Assets - End of Year	<u>\$ 127,651</u>

The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Balance Sheet Governmental Funds June 30, 2012

ASSETS

Cash in County Treasury	\$	169,718
Imprest cash		100
Prepaid expenses		2,130
Deposits with others		<u>2,000</u>
Total Assets	\$	<u><u>173,948</u></u>

LIABILITIES

Accounts payable	\$	1,635
Accrued salaries		<u>12,801</u>
Total Liabilities		<u>14,436</u>

FUND BALANCE

Nonspendable for prepaids		2,130
Unassigned		<u>157,382</u>
Total Fund Balance		<u>159,512</u>
Total Liabilities and Fund Balance	\$	<u><u>173,948</u></u>

The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2012

Fund balance - total governmental funds	\$	159,512
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		7,864
Compensated absences payables are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(39,725)</u>
Net Assets of Governmental Activities	\$	<u><u>127,651</u></u>

The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended June 30, 2012

REVENUES

Intergovernmental revenues:	
County of Napa	\$ 191,550
City of Napa	126,330
City of St. Helena	12,997
City of American Canyon	32,912
City of Calistoga	11,393
Town of Yountville	7,917
Planning fees	9,087
Interest income	2,472
	<hr/>
Total Revenues	394,658

EXPENDITURES

Salaries and benefits	296,625
Services and supplies	107,733
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Total Expenditures	404,358
Change in Fund Balance	(9,700)
Fund Balance - Beginning of Year	169,212
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Fund Balance - End of Year	\$ 159,512

The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities For the Year Ended June 30, 2012

Net change to fund balance - total governmental funds	\$ (9,700)
Amounts reported for governmental activities in the statement of activities are different because:	
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,205)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	<u>(3,931)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (15,836)</u></u>

The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Local Agency Formation Commission of Napa County (Commission) was created in 1963 by the California Legislature to encourage the orderly formation and development of local agencies, promote the efficient extension of municipal services, and protect against the premature conversion of agricultural and open-space lands. In 2001, following the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became an independent agency separate from Napa County. As of June 30, 2012, there are 23 cities and special districts under the jurisdiction of the Commission in Napa County.

The Commission is comprised of five regular and three alternate members. Each member is appointed pursuant to California Government Code Section 56000 et. Seq. and represents one of the following three interests:

- County Members: Two regular and one alternate member represent Napa County. These members are Board of Supervisors. Appointments are made by the Board of Supervisors.
- City Members: Two regular and one alternate member represent the five cities in Napa County. The members are mayors or council members. Appointments are made by the City Selection Committee.
- Public Members: One regular and one alternate member represent the general public. Appointments are made by the county and city members on the Commission.

The Commission includes all activities (operations of its administrative staff and commission officers) considered to be a part of the Commission. The Commission 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 Commission is financially accountable for other entities. The Commission 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. In addition, the Commission is not aware of any entity that would be financially accountable for the Commission that would result in the Commission being considered a component unit of that entity.

B. Basis of Presentation and Accounting

Government-Wide Statements

The statement of net assets and statement of activities display information about the primary government (Commission). These statements include the financial activities of the overall Commission.

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including all taxes and investment income, are presented as general revenues.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation and Accounting (continued)

Government-Wide Statements (continued)

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 Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes and grants. Revenues from sales tax are recognized when the underlining transactions take place. Revenues from grants are recognized in the fiscal year in which all eligible requirements have been satisfied.

When both restricted and unrestricted net assets are available, restricted resources are used before non-restricted resources.

Fund Financial Statements

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 ("susceptible to accrual"). Taxes, interest, certain state and federal grants, and charges for services 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, as well as expenditures related to compensated absences, are recorded only when payment is due.

The General Fund is the Commission's primary operating fund. It accounts for all financial resources of the general government.

C. Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. The Commission defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide statements. Depreciation begins on the first day of the fiscal year following the period the asset is placed in service and ends in the fiscal year that it is retired from service or is fully depreciated.

D. Compensated Absences

Earned vacation may be accumulated up to a maximum of 536 hours by management personnel. Supervisory employees may accumulate up to 416 hours vacation. The following chart is to be used for unused vacation benefits accrual by all other personnel.

<u>Year of Continuous Commission Service</u>	<u>Maximum Accrual of Unused Vacation Benefits</u>
Years 1 through 3	240 maximum hours
Years 4 through 10	300 maximum hours
Years 11 or more	400 maximum hours

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. **Compensated Absences (continued)**

The Commission accounts for compensated absences in accordance with Governmental Accounting Standards Board Statement No. 16 *Accounting for Compensated Absences*. The earned vacation is payable upon termination and is reported at the current balance of the liability. There is no payout of sick leave upon termination from the Commission.

E. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH

Cash at June 30, 2012 consisted of the following:

Cash in County Treasury	<u>\$ 169,718</u>
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The Commission 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. Napa County's financial statements may be obtained by contacting Napa County's Auditor-Controller's office at 1195 Third Street, Room B-10, Napa, California 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Required disclosures for the Commission's deposit and investment risks at June 30, 2012, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
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.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 3: CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2012 were as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Capital assets, being depreciated:				
Equipment	\$ 19,657	\$ --	\$ --	\$ 19,657
Less accumulated depreciation for:				
Equipment	<u>(7,862)</u>	<u>(3,931)</u>	<u>--</u>	<u>(11,793)</u>
Capital assets, net	<u>\$ 11,795</u>	<u>\$ (3,931)</u>	<u>\$ --</u>	<u>\$ 7,864</u>

NOTE 4: LONG-TERM LIABILITIES

The following is a summary of long-term liability activity of the Commission for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
Compensated Absences	<u>\$ 37,520</u>	<u>\$ 9,640</u>	<u>\$ (7,435)</u>	<u>\$ 39,725</u>	<u>\$ 7,435</u>

NOTE 5: NET ASSETS/FUND BALANCE

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets (net of related debt), restricted and unrestricted. The Commission has unrestricted funds and invested in capital assets (net of related debt). Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Unrestricted net assets consist of all other net assets not included in the above categories.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 5: NET ASSETS/FUND BALANCE (CONTINUED)

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2012, fund balances for governmental funds are made up of the following:

- *Nonspendable fund balance* – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* – amount constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level of action to remove or change the constraint.
- *Assigned fund balance* – amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commission's board or by an official or body to which the Commission's board delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Commission's board establishes (and modifies or rescinds) fund balance commitments by adopting a final budget no later than June 15th and approving amendments as needed throughout the fiscal year. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives).

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

The Commission strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately three months of expenditures.

NOTE 6: RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2012, the Commission paid Napa County, a related party, \$40,470 for legal, personnel, and other support services.

In addition, the Commission received \$191,550 during the fiscal year ended June 30, 2012, from Napa County, a related party, pursuant to Government Code Section 56381. The County provides half of the intergovernmental revenue to the Commission. The other half is funded by City of Napa, City of St. Helena, City of American Canyon, City of Calistoga and Town of Yountville.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Commission contributes to the County of Napa's other post-employment benefits (OPEB) plan as a cost-sharing participant. All eligible employees of the Commission participate as County employees in the plan. The plan provides healthcare insurance benefits to eligible retirees. Benefit provisions are established and may be amended by the County. Retiree medical benefits are provided through the California Public Employees' Retirement System healthcare program.

During the fiscal year ended June 30, 2012, the Commission's contributions were \$9,138. Additional information and required disclosures can be obtained from the County's audited financial statements, available from the Auditor-Controller's Office.

NOTE 8: DEFINED BENEFIT PENSION PLAN

The Commission contributes to the County of Napa's retirement plan as a cost-sharing participant. All full-time employees of the Commission participate as County employees in which the County contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS annual financial reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

During the fiscal year ended June 30, 2012, the Commission's contributions were \$36,872. Additional information and required disclosures can be obtained from the County's audited financial statements, available from the Auditor-Controller's Office.

NOTE 9: OPERATING LEASE

The Commission is committed under a non-cancelable operating lease for photocopy machines. The minimum future lease commitments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	4,000
2014	4,000
2015	<u>4,000</u>
	<u>\$ 12,000</u>

Rent expenditures were \$29,280 for the year ended June 30, 2012.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2012

NOTE 10: **RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in Napa County's risk pool. Information about coverage can be found in the County's basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Budgetary Comparison Schedule
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 383,101	\$ 383,101	\$ 383,099	\$ (2)
Interest income	2,340	2,340	2,472	132
Planning fees	10,000	10,000	9,087	(913)
Total Revenues	<u>395,441</u>	<u>395,441</u>	<u>394,658</u>	<u>(783)</u>
<u>EXPENDITURES</u>				
Salaries and benefits	304,503	307,780	296,625	11,155
Services and supplies	114,088	116,558	107,733	8,825
Depreciation expense	3,931	3,931	3,931	
Total Expenditures	<u>422,522</u>	<u>428,269</u>	<u>408,289</u>	<u>19,980</u>
Change in Fund Balance	<u>\$ (27,081)</u>	<u>\$ (32,828)</u>	(13,631)	<u>\$ 19,197</u>
Fund Balance - Beginning of Year			<u>169,212</u>	
Fund Balance - End of Year			<u>\$ 155,581</u>	

Explanation of Differences between Budgetary Outflows and USGAAP Expenditures:

Uses/outflows of resources:

Actual amounts (budgetary basis) "total expenditures"
from the budgetary comparison schedule

\$ 408,289

Differences - budget to USGAAP:

Depreciation expense

(3,931)

Total expenditures as reported on the statement of revenues, expenditures
and changes in fund balance

\$ 404,358

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to the Required Supplementary Information
For the Year Ended June 30, 2012

BUDGET AND BUDGETARY REPORTING

The Commission prepares and legally adopts a final budget on or before June 15th of each fiscal year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year end are completed or purchase commitments satisfied. Such year end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year end. Budgets are prepared using generally accepted accounting principles.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, and other charges.

OTHER REPORT



**INDEPENDENT AUDITOR'S 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 Commissioners
Local Agency Formation Commission of Napa County
Napa, California

We have audited the financial statements of the Local Agency Formation Commission of Napa County (Commission) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012. 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 the Commission'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 Commission's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the Commission'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. 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*.

Board of Commissioners
Local Agency Formation Commission of Napa County

This report is intended solely for the information of the Commission, management and the six agencies that fund LAFCO and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
November 2, 2012