

Flood Protection and Watershed Improvement Projects
in
Napa County



A Tradition of Stewardship
A Commitment to Service

A report from the
Financial Oversight Committee

For the Fiscal Year Ended 6/30/2012

Published April 2013

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

More information is available at
www.countyofnapa.org/MeasureAFinancialOversightCommittee

Residents of Napa County,

Fifteen 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.countyofnapa.org/MeasureAFinancialOversightCommittee

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.
- 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.

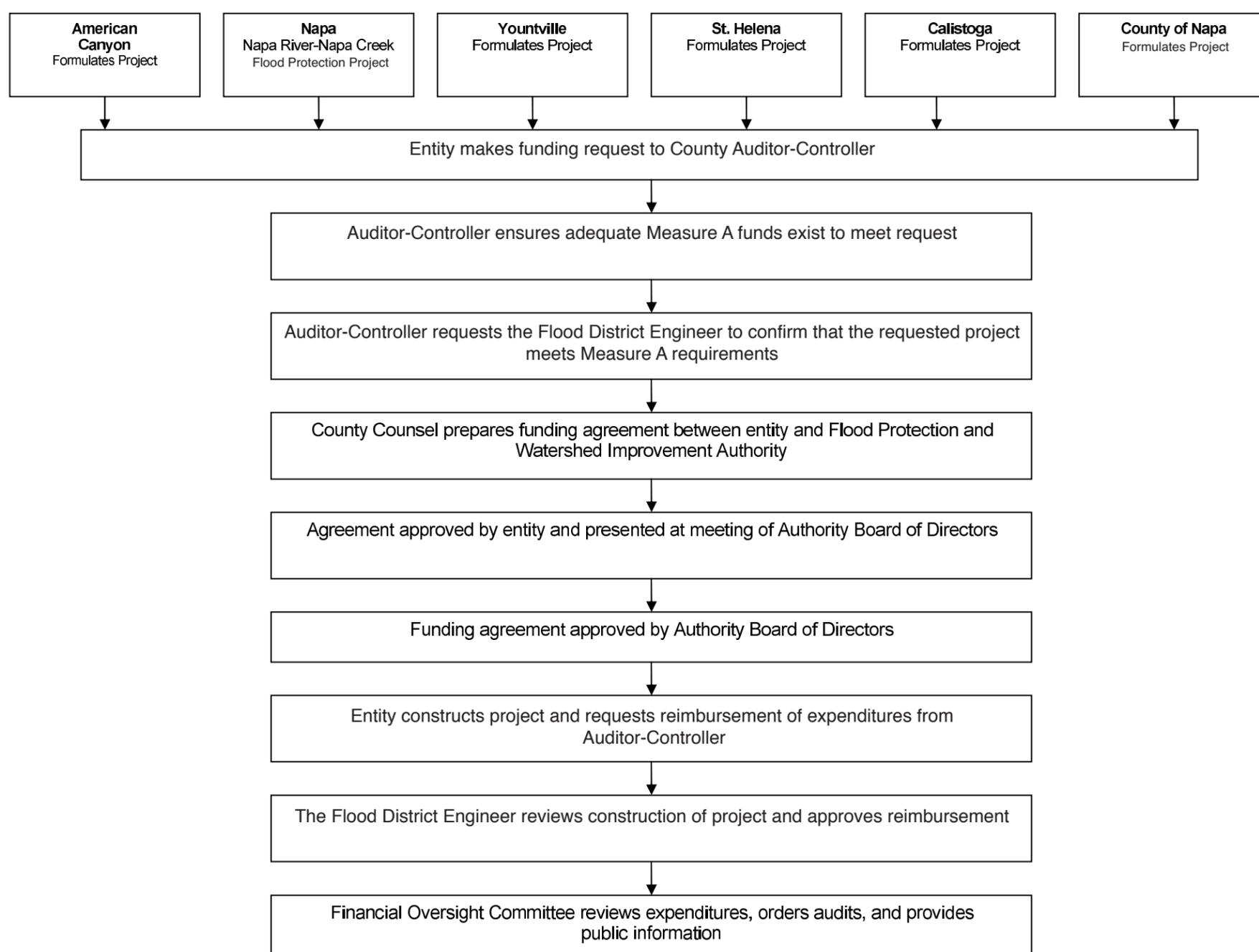
Sincerely,
Carl Ebbeson
Chairman
April 2013

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 have been revised each year using the prior year average annual sales percentages received by each entity. Chart 2 below provides annual percentage allocations for each year by entity.

NAPA COUNTY FLOOD PROTECTION AND WATERSHED IMPROVEMENT AUTHORITY

Chart 2
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%	100.00%
9	2006-2007	60.26%	7.35%	3.00%	9.98%	2.47%	16.94%	100.00%
10	2007-2008	59.94%	6.56%	2.94%	10.15%	2.47%	17.94%	100.00%
11	2008-2009	58.26%	8.26%	3.41%	10.26%	2.56%	17.25%	100.00%
12	2009-2010	57.33%	8.87%	3.13%	9.39%	3.08%	18.20%	100.00%
13	2010-2011	57.51%	8.59%	3.09%	9.02%	3.20%	18.59%	100.00%
14	2011-2012	57.18%	7.98%	3.35%	8.59%	3.49%	19.41%	100.00%

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

Chart 3 below provides a detailed revenue and expenditure statement by jurisdiction from the inception of the sales tax through the end of fiscal year 2011-2012. 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 14 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 7 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 City of Napa Project and allowed the City of Napa Project to begin immediately while other communities prepared plans for their flood protection needs. The JPA further directed that the revenues loaned to the City of Napa Project would be repaid to the other participants in Measure A starting in year eight (2005-2006). In Chart 3, this loan and repayment is shown as revenue to the entities and as expense for the City of Napa. The repayment is \$1.7 million each year, therefore fiscal year 2011-2012 shows seven years of payback.

Also included in the JPA is a provision for establishing a maintenance fund for on-going maintenance of the Napa Flood Project 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. In fiscal year 2010-2011, the City of Napa and Vicinity Project allocated an additional \$10,000,000 to this reserve as required by the JPA. The chart shows seven years of this collection.

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

**Chart 3
Revenue and Expenditure Statement
From Inception to June 30, 2012**

	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
Revenues								
Sales Tax Revenue	\$ 121,174,202	\$ 8,655,813	\$ 3,667,665	\$ 11,638,436	\$ 3,104,325	\$ 17,848,080	\$ 0	\$ 166,088,521
Interest Revenue	5,337,096	1,083,381	636,219	1,488,356	294,628	1,960,356	415,995	11,216,031
Bond Proceeds	44,099,968	0	0	13,655,000	0	0	0	57,754,968
Bond Interest Revenue	4,602,338	0	0	825,267	0	0	0	5,427,605
Repayment of Advance to Napa & Vicinity	0	2,387,126	1,175,748	4,097,305	819,462	3,420,359	0	11,900,000
Maintenance Fund Contributions	0	0	0	0	0	0	12,458,078	12,458,078
Miscellaneous Revenue	124,730	3,298	1,624	55,661	1,132	4,724	0	191,169
Total Revenues	175,338,334	12,129,618	5,481,256	31,760,025	4,219,547	23,233,519	12,874,073	265,036,372
Expenditures								
Project Expenses	81,269,775	6,099,914	4,752,612	18,254,015	2,507,313	14,799,570	0	127,683,199
Bond Principal Payments	22,880,000	0	0	6,480,000	0	0	0	29,360,000
Bond Interest Payments & Fiscal Charges	22,280,293	0	0	3,258,432	0	0	0	25,538,725
Bond Issuance, Admin & Arbitrage Payments	2,163,622	0	0	471,231	0	0	0	2,634,853
Repayment of Advance to Napa & Vicinity	11,900,000	0	0	0	0	0	0	11,900,000
Future Maintenance Fund	11,435,000	0	133,000	450,156	92,078	347,844	0	12,458,078
Administrative Expenses	1,510,856	54,176	22,458	70,037	19,725	117,762	0	1,795,014
Total Expenditures	153,439,546	6,154,090	4,908,070	28,983,871	2,619,116	15,265,176	0	211,369,869
Fund Balance as of 6/30/12	\$ 21,898,788	\$ 5,975,528	\$ 573,186	\$ 2,776,154	\$ 1,600,431	\$ 7,968,343	\$ 12,874,073	\$ 53,666,503
Reserved for Debt Service	339,031	0	0	149,557	0	0	0	488,588
Available Fund Balance as of 6/30/12	\$ 21,559,757	\$ 5,975,528	\$ 573,186	\$ 2,626,597	\$ 1,600,431	\$ 7,968,343	\$ 12,874,073	\$ 53,177,915

Note: This chart only includes Measure A and Bond funded activity that is paid back by Measure A funds.
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 4 illustrates that actual receipts are 43% 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 4
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	7,017,390	10,050,117	43%
2000 - 2001	7,227,912	10,299,475	42%
2001 - 2002	7,444,749	10,694,334	44%
2002 - 2003	7,668,092	10,413,557	36%
2003 - 2004	7,898,134	11,948,764	51%
2004 - 2005	8,135,078	11,545,826	42%
2005 - 2006	8,379,131	13,125,355	57%
2006 - 2007	8,630,505	14,166,937	64%
2007 - 2008	8,889,420	14,253,785	60%
2008 - 2009	9,156,102	12,774,412	40%
2009 - 2010	9,430,785	12,263,662	30%
2010 - 2011	9,713,709	12,867,669	32%
2011 - 2012	10,005,120	14,381,196	44%
Totals	\$ 116,409,127	\$ 166,088,521	43%

5. When does the Flood Protection sales tax end?

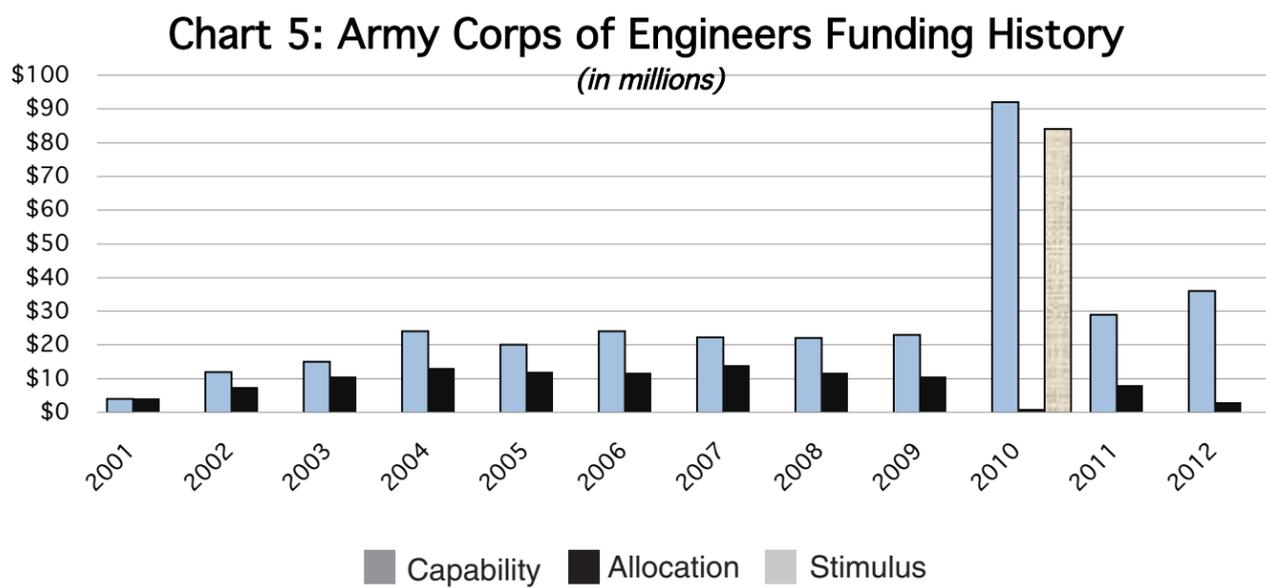
The Measure A ordinance established a 20-year period for the half-cent sales tax from 1998 to 2018. At the conclusion of the tax collection, a fund has been established to fund the ongoing maintenance needs for the City of Napa and Vicinity Project.

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 fiscal year 2011-2012, are the most recent that can be appropriately provided by the FOC in this report.

The following questions and answers 6-11 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.

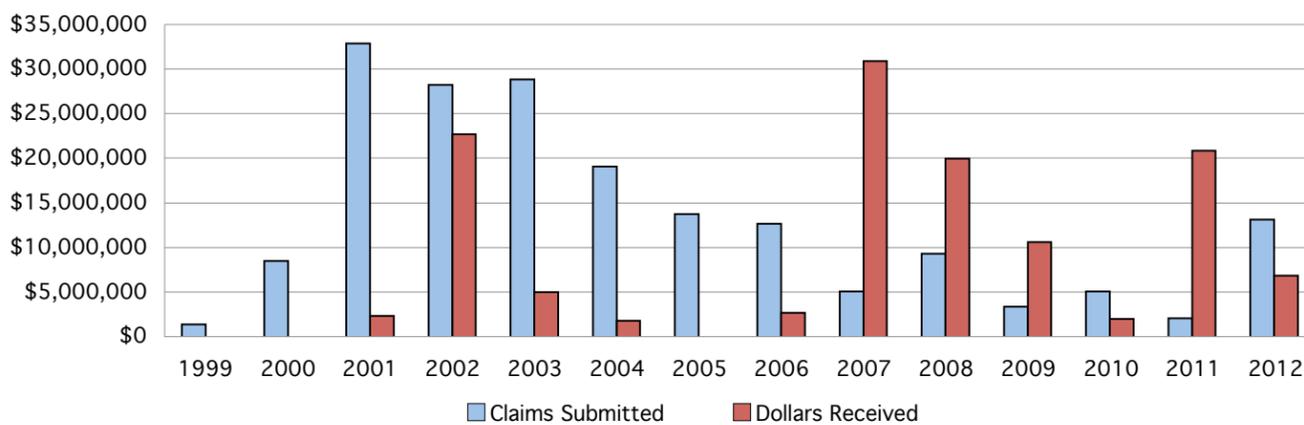
Federal Funding: For the Napa River—Napa Creek Flood Protection Project, the Federal government provides funding through allocations to the Corps of Engineers (COE). Allocations vary from year-to-year. From fiscal year 2000-2001 through fiscal year 2011-2012 during the Project construction, the COE has indicated the capability to spend \$323 million for the Napa Project. This figure includes a capability of \$92 million for fiscal year 2009-2010 following the \$84.1 million allocation from the American Recovery and Reinvestment Act of 2009 (ARRA). Total funding by the Federal government now totals \$192 million including the ARRA funds. This allocation will fully fund two of the major construction contracts—the Bypass Rail Bridge Relocation Project and work on Napa Creek. “Chart 5: Army Corps of Engineers (COE) Funding History” shows the year-to-year capability versus allocation.



Question 6 (continued):

State Funding: Funding for the City of Napa Project from the State of California is provided through the Subvention Fund for Flood Control. This program reimburses the local sponsor of a federally-authorized flood project up to 75% of local costs for land acquisition and up to 90% of local costs for relocations of utilities and structures. From fiscal year 1997-1998 through fiscal year 2011-2012, the Napa Flood District as the local sponsor has submitted \$183.3 million in claims for Subvention Fund reimbursements. Of this amount, \$148.5 million is expected to be eligible for reimbursement. The Flood District has received \$125.5 million in reimbursements as of June 30, 2012. Reimbursements are often not received in the same fiscal year in which the claims are 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 6: State Subvention Reimbursement History" shows the amount of eligible claims filed and the reimbursements received in given fiscal years.

Chart 6: State 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, 2012, as shown in Chart 3 on page 5, including transfers to the future maintenance fund:

- The City of American Canyon projects include wetlands restoration, critical creek maintenance including vegetation control and silt removal permitting activities, preparation of a storm water management study, American Canyon Creek storm drain study for Kimberly Park, Rio Del Mar Watershed Improvements, Kimberly Flood Control, Clean Water and Park Improvement projects, and street sweeping. The total amount of Measure A funds spent through June 30, 2012 is \$6,154,090.
- The City of Calistoga projects include the Kimball Water Treatment Plant Maintenance Dredging Project, work on Kimball Reservoir and the Grant Street Drainage Improvements. The total amount of Measure A funds spent through June 30, 2012 is \$4,908,070.
- The City of St. Helena has completed the Comprehensive flood protection project which includes levee protection for Vineyard Valley Mobile home Park and the surrounding area. The remaining Measure A funds and future collections will be used to offset debt payments for bonds issued for this project. The total amount of Measure A funds spent through June 30, 2012 is \$28,983,871.
- The Town of Yountville constructed a Flood Barrier around the Rancho de Napa and Gateway Mobile Home Parks in December 2004 for a total cost of approximately \$6 million. This project was funded by Measure A, FEMA Grants, Town

General Fund revenue, and property owner contributions. Measure A funds are currently being utilized to complete repairs and bank stabilization on the east side of Beard Ditch and across from the pumps at the floodwall. The total amount of Measure A funds spent through June 30, 2012 is \$2,619,116.

- The County of Napa has spent \$15,265,176 through June 30, 2012 on twelve watershed improvement projects, ten of which are still ongoing including: water supply reliability projects in Angwin, the Milliken-Sarco-Tulocay recycled water project, restoration of the Napa River in Rutherford and Oakville reaches, fish passage improvement at Zinfandel Lane Bridge, development and implementation of Napa River sediment reduction projects, and Lake Berryessa watershed improvement projects.

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 the Project was \$180 million. As of June 30, 2012, the revised cost estimate is \$561.1 million. There have been no significant changes to the scope of the project to-date. Increased costs are due primarily 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?

In terms of the Napa River-Napa Creek Flood Protection Project, chart 5 on page 6 shows the past shortfall in federal funding which has delayed project construction. Chart 5 also shows the recent allocation of approximately \$84 million in funding for the Project under the American Recovery and Reinvestment Act of 2009 ("stimulus funding"). The effect of stimulus funding on the Project schedule is significant in that the Corps has provided dedicated funding for several project elements and a specific schedule to spend these funds during the period from 2009 through 2012. In particular, construction of the Bypass Rail Bridge Relocation Project (already under construction) and Napa Creek (under construction) are fully funded, therefore will not be dependent on future annual federal budget allocations, which have historically been less than needed to keep construction on schedule. Future project contracts including the Oxbow Bypass, pump stations and floodwalls will require allocations through the Federal budget process and future shortfalls could still occur.

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 Measure A funds are being spent on lobbying expenses (direct payment to lobbying firms and related County/municipality travel)?

The Flood District has drawn upon \$2,106,443 of Measure A funds to pay an outside lobbying firm over the past 14 years (through the end of fiscal year 2011-2012), specifically for the Army Corps of Engineers to complete work on the City of Napa Flood Project. This is less than 2% of total funds received in Measure A funds, and has produced 15% more monies to the project above the President's proposed budget (See Chart 7). The City of St. Helena has paid an outside lobbying firm a total of \$1,173,998 (unaudited). The goal of these efforts is to secure a Water Resources Development Act grant in the amount of \$19 million. The opinion of the Financial Oversight Committee is that these are appropriate expenditures for Measure A funding and that lobbying efforts have been greatly effective in receiving additional support for the projects.

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

Chart 7

Funds Allocated to the Army Corps of Engineers for the Napa Flood Project

<u>Sales Tax Collection Year</u>	<u>President's Proposed Budgeted Amount</u>	<u>Appropriated Amount</u>	<u>Allocated Funds by Year</u>
1999 - 2000	4,500,000	3,500,000	2,152,000
2000 - 2001	4,000,000	4,000,000	2,192,000
2001 - 2002	5,500,000	7,000,000	7,456,000
2002 - 2003	5,000,000	9,000,000	10,590,000
2003 - 2004	7,500,000	12,734,000	13,234,000
2004 - 2005*	7,000,000	16,000,000	11,964,000
2005 - 2006	6,000,000	12,000,000	11,880,000
2006 - 2007	9,000,000	14,000,000	14,000,000
2007 - 2008	7,500,000	10,824,000	11,724,000
2008 - 2009	7,394,500	10,527,000	10,527,000
ARRA Funds**	99,483,000	84,187,377	84,112,290
2009 - 2010	5,000,000	1,000,000	1,000,000
2010 - 2011	-	8,382,589	8,382,589
2011 - 2012	-	1,300,000	2,889,712
Totals	\$ 167,877,500	\$ 194,454,966	\$ 192,103,591

*In fiscal year 2004 - 2005, \$4 million was "reprogrammed" to other projects after the President's Proposed Budget

**ARRA funds decreased due to lower costs than originally estimated to complete the project.

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

<u>Completed Components</u>	<u>Date Completed</u>
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 the Bypass	2005
Maxwell Bridge replacement	2006
East terracing	2006
Hatt to First Floodwall and Promenade	2008
Bypass Rail Bridge Relocation Project	2012
<u>Components Under Construction</u>	<u>Estimated Completion</u>
Napa Creek	2013
<u>Future Components</u>	<u>Estimated Start</u>
Bypass excavation	2013
Oxbow Floodwalls	2014
East-side floodwall Tulocay to Third Street	2015
Tulocay pump station	2015
West-side floodwall Imola to Hatt	2015
Imola detention basin and pump station	2015
Floodwall and levees north of Oxbow	2015
Soscol pump station	2016

12. What percentage of Measure A funds have been spent on administrative expenses from inception July 1, 1998 through June 30, 2012?

The Joint Powers Agreement provides for a cap of 3% of gross Flood Protection Sales Tax revenues to cover administrative expenses. The category of "Administrative Expenses" under this cap does not include debt financing expenses. In fiscal year 1998-1999, administrative expenses included legal and publication costs incurred for the creation of the Napa County Flood Protection and Watershed Improvement Authority (Flood Authority).

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

**Chart 8
Annual Administrative Expenses
From Inception (July 1, 1998) to June 30, 2012**

<u>Fiscal Period</u>	<u>Administrative Expenses</u>	<u>Percentage of Tax Revenues</u>
1998-1999	\$ 332,932	4.56%
1999-2000	124,782	1.24%
2000-2001	77,286	0.75%
2001-2002	73,181	0.68%
2002-2003	75,003	0.72%
2003-2004	84,666	0.71%
2004-2005	317,989	2.75%
2005-2006	123,395	0.94%
2006-2007	126,288	0.89%
2007-2008	105,591	0.74%
2008-2009	63,910	0.50%
2009-2010	90,552	0.74%
2010-2011	77,578	0.60%
2011-2012	121,861	0.85%
	<u>\$ 1,795,014</u>	

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, 2012

Table of Contents

	Page
FINANCIAL SECTION	
Independent Auditor Report	11
Management's Discussion and Analysis	11-12
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets (Deficit)	12
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet To the Government-Wide Statement of Net Assets Governmental Activities.....	13
Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
Reconciliation of the Statement of Revenues and Expenditures and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities Governmental Activities	13
Notes to Component Unit Financial Statements.....	13-15
Required Supplementary Information	
Budgetary Comparison Schedule.....	15
Notes to Required Supplementary Information	
Budgetary Basis of Accounting.....	15-16
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 <i>Government Auditing Standards</i>	16

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the 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 Authority 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 19, 2012, on our consideration of the 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.

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 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 19, 2012

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, 2012. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority collected \$14,381,196 in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A, during the fiscal year.
- The Authority provided \$8,107,932 to its members for their respective flood control projects.
- The cash position of the Authority remained strong with \$50,889,967 invested in the County's investment pool.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that includes budgetary comparison information for the Authority's only special revenue fund.

Government-Wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Authority's assets and liabilities including long-term debt. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

Fund Financial Statements

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

FINANCIAL ANALYSIS OF THE AUTHORITYNet Assets

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

Condensed Statement of Net Assets As of June 30,

	2012	2011	Variance
Current assets	\$ 54,131,332	\$ 52,983,871	\$ 1,147,461
Total Assets	<u>54,131,332</u>	<u>52,983,871</u>	<u>1,147,461</u>
Current liabilities	4,692,290	4,449,440	242,850
Long-term liabilities	23,951,232	28,147,272	(4,196,040)
Total liabilities	<u>28,643,522</u>	<u>32,596,712</u>	<u>(3,953,190)</u>
Net Assets			
Unrestricted	25,487,810	20,387,159	5,100,651
Total Net Assets	<u>\$ 25,487,810</u>	<u>\$ 20,387,159</u>	<u>\$ 5,100,651</u>

The Authority's net assets increased \$5.1 million from \$20,387,159 at June 30, 2011, to \$25,487,810 at June 30, 2012. The increase is primarily due to lower than anticipated draws on these funds for project costs. Total liabilities decreased \$4.4 million over the prior year due to a net decrease in the outstanding principal on the Authority's long term debt, and a reduction in amounts due to the members as of the close of the year.

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, 2012, and the expenses incurred are as follows:

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

	2012	2011	Variance
Revenues:			
Sales and use taxes	\$ 14,381,196	\$ 12,867,668	\$ 1,513,528
Interest earnings	362,062	428,980	(66,918)
Total Revenues	<u>14,743,258</u>	<u>13,296,648</u>	<u>1,446,610</u>
Expenses:			
Public protection	8,229,785	6,260,739	1,969,046
Interest on long term debt	1,412,822	1,549,986	(137,164)
Total expenses	<u>9,642,607</u>	<u>7,810,725</u>	<u>1,831,882</u>
Change in net assets	5,100,651	5,485,923	(385,272)
Net assets - Beginning of fiscal year	20,387,159	14,901,236	5,485,923
Net assets - End of fiscal year	<u>\$ 25,487,810</u>	<u>\$ 20,387,159</u>	<u>\$ 5,100,651</u>

The sales and use taxes in 2012 were slightly higher due to the slow recovery of the economy from the prior year. The decrease in investment earnings is the result of a global decrease in investment rates and in the balance of the cash with fiscal agent during the fiscal year ended June 30, 2012. The most significant change in expenses 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 Authority's Board. The Authority is a special revenue fund which is the operating fund.

Actual appropriations were approximately \$2.7 million less than the final budget projections, due to lower than anticipated draws from the funds for project costs.

DEBT ADMINISTRATION

On July 1, 1999, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Bonds in the amount of \$43,650,000. The proceeds were principally used to finance the initial phase of the Napa Flood Project. The final principal payment of was made during the 2008-2009 fiscal year.

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 \$1,040,000 was made during this fiscal year. The principal balance outstanding at June 30, 2012, is \$7,175,000. A principal payment of \$1,085,000 is due in fiscal year 2012-2013. The bonds will be fully paid for by June 2018.

On July 12, 2005, 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 \$2,960,000 was made during this fiscal year. The principal balance outstanding at June 30, 2012, is \$20,825,000. A principal payment of \$3,090,000 is due in fiscal year 2012-2013. 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 June 30, 2012**

ASSETS

Current Assets:		
Cash and investments in county treasury		\$ 50,889,967
Cash with fiscal agent		488,588
Due from other governments		2,752,777
Total Assets		<u>\$ 54,131,332</u>

LIABILITIES

Current Liabilities:		
Accounts payable		9,542
Accrued interest		52,461
Due to other governments		455,287
Bonds payable, current portion		4,175,000
Total Current Liabilities		<u>4,692,290</u>
Long-Term Liabilities:		
Bonds payable, net of premiums and discounts		23,951,232
Total Liabilities		<u>28,643,522</u>

NET ASSETS

Restricted for flood projects		25,487,810
Total Net Assets		<u>25,487,810</u>
Total Liabilities and Net Assets		<u>\$ 54,131,332</u>

Statement of Activities For the Fiscal Year Ended June 30, 2012

EXPENSES

Public Protection		
Project charges		\$ 8,107,932
Administration charges		68,572
Accounting and audit expense		13,197
Legal expense		40,084
Interest and fiscal charges		1,412,822
Net Program Expense		<u>9,642,607</u>

GENERAL REVENUES

Sales & use tax		14,381,196
Interest income		362,062
Total General Revenues		<u>14,743,258</u>
Change in Net Assets		5,100,651
Net Assets - Beginning of Year		20,387,159
Net Assets - End of Year		<u>\$ 25,487,810</u>

**BASIC FINANCIAL STATEMENTS
FUND FINANCIAL STATEMENTS
Balance Sheet Governmental Funds June 30, 2012**

ASSETS

Cash and investments in county treasury		\$ 50,889,967
Cash with fiscal agent		488,588
Due from other governments		2,752,777
Total Assets		<u>\$ 54,131,332</u>

LIABILITIES

Accounts payable		\$ 9,542
Due to other governments		455,287
Total Liabilities		<u>464,829</u>

FUND BALANCE

Restricted		53,666,503
Total Fund Balances		<u>53,666,503</u>
Total Liabilities and Fund Balances		<u>\$ 54,131,332</u>

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets - Governmental Activities
June 30, 2012

Fund balance - total governmental funds (above)	\$ 53,666,503
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	(52,461)
Bonds payable	(28,126,232)
Net Assets of Governmental Activities (page 12)	<u>\$ 25,487,810</u>

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

REVENUES

Sales & use tax	\$ 14,381,196
Interest income	362,062
Total Revenues	<u>14,743,258</u>

EXPENDITURES

Project charges	8,107,932
Administration charges	68,583
Accounting and audit expense	13,197
Legal expense	40,084
Debt Service:	
Principal	4,000,000
Interest	1,433,885
Administration and issuance fees	7,250
Total Expenditures	<u>13,670,931</u>

Net Change in Fund Balance	1,072,327
Fund Balance - Beginning of Year	52,594,176
Fund Balance - End of Year	<u>\$53,666,503</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Government-Wide Statement of Activities - Governmental
Activities For the Fiscal Year Ended June 30, 2012

Net change to fund balance - total governmental funds (previous chart)	\$ 1,072,327
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	7,284
Amortization of premiums/deferred issuance costs related to 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 payments	4,000,000
Change in Net Assets of Governmental Activities (above)	<u>\$ 5,100,651</u>

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS

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

Notes to Component Unit Financial Statements For the Fiscal Year Ended June 30, 2012

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 originally expected to generate in excess of \$6 million per year, 2/3 of which is to 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 \$561.1 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 have loaned collected sales tax exceeding \$1 million to the project for the first seven (7) years of the Flood Protection Sales tax term. Repayment of this loan, including interest, began in year 8 of the tax and will be fully paid by the termination of the tax in year 20.

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 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, 2012, 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, 2012. 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 first, and then unrestricted resources are used as needed.

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, 2012.

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.

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.

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, 2012, consisted of the following:

Cash in County Treasury	<u>\$ 50,889,967</u>
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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, 2012, 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, 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.

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, 2012, the Authority's deposit balances with the fiscal agent totaled \$488,588. Required disclosures for the Authority's deposit and investment risks at June 30, 2012, 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		Balance		Amounts Due Within a Year
	July 1, 2011	Additions	Deletions	June 30, 2012	
2005 Series A Bonds	\$ 8,215,000	\$ --	\$ (1,040,000)	\$ 7,175,000	\$ 1,085,000
Series 2005					
Tax Refunding Bonds	23,785,000	--	(2,960,000)	20,825,000	3,090,000
Less deferred amounts:					
For issuance premiums	1,123,902	--	(160,558)	963,344	--
For refunding	(976,630)	--	139,518	(837,112)	--
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 32,147,272</u>	<u>\$ --</u>	<u>\$ (4,021,040)</u>	<u>\$ 28,126,232</u>	<u>\$ 4,175,000</u>

Annual debt service requirements are as follows:

Year Ending	Governmental Activities Bonds Payable	
	Principal	Interest
June 30,		
2013	4,175,000	1,259,060
2014	4,375,000	1,061,160
2015	4,570,000	859,375
2016	4,745,000	688,500
2017	4,950,000	418,000
2018	<u>5,185,000</u>	<u>246,100</u>
Subtotal	28,000,000	4,595,195
Deferred amounts- net	126,232	
	<u>\$ 28,126,232</u>	

Long-term liabilities at June 30, 2012, consisted of the following:

Date of Issue	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
Bonds Payable					
2005 Series Tax Refunding Bonds (to partially refund the 1999 Series A Bonds, and to pay the costs of issuance of the Series 2005 Tax Refunding Bonds.)					
2005 Series Tax Refunding Bonds	07/12/2005	2018	3.20-5.00%	\$55,000-\$3,870,000	29,710,000
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
Total bonds payable					<u>\$ 43,365,000</u>
					<u>\$ 28,000,000</u>

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. No arbitrage fees were due or paid during the current fiscal year.

Note 4: 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. 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. Restricted net assets consist of all other net assets restricted for flood projects and not included in the above category

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spend. 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 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 Authority itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level of action to remove or change the constraint.
- *Assigned fund balance* - amounts the Authority intends to use for a specific purpose. Intent can be expressed by the Authority's board or by an official or body to which the Authority'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 Authority's fund balance is restricted 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, 2012, the fund balance was restricted as follows:

Restricted:	
City of American Canyon	\$ 5,975,528
City of Calistoga	573,186
City of Napa	21,559,757
City of St. Helena	2,626,597
Town of Yountville	1,600,431
Unincorporated County of Napa	7,968,343
Maintenance Reserve	12,874,073
Debt Service	488,588
Total	\$ 53,666,503

Note 5: Related Party Transactions

During the fiscal year ended June 30, 2012, the Authority paid the County of Napa, a related party, \$115,002, of which \$42,332 was for Measure A projects administration fees, \$19,389 for information technology services, \$13,197 for accounting services, and \$40,084 for legal services.

The Authority paid \$348,460 to the Town of Yountville, \$668,733 to the City of American Canyon, \$2,526,939 to the City of Calistoga, and \$4,563,800 to the County of Napa for their respective flood control projects.

The Authority paid project related bond payments, including interest, for the City of Napa Project in the amount of \$4,069,475 and for the City of Helena in the amount of \$1,371,660.

Note 6: 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).

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Sales & use tax	\$12,327,855	\$12,327,885	\$14,381,196	\$ 2,053,311
Interest income	566,000	566,000	362,062	(203,938)
Total Revenues	<u>12,893,855</u>	<u>12,893,885</u>	<u>14,743,258</u>	<u>1,849,373</u>
EXPENDITURES				
Project charges	16,356,063	18,439,063	8,107,932	10,331,131
Administration charges	129,889	129,889	68,583	61,306
Accounting and audit expense	16,000	16,000	13,197	2,803
Legal charges	5,000	5,000	40,084	(35,084)
Debt Service:				
Principal	4,000,000	4,000,000	4,000,000	--
Interest	1,433,885	1,433,885	1,433,885	--
Administration and issuance fees	14,000	14,000	7,250	6,750
Total Expenditures	<u>21,954,837</u>	<u>24,037,837</u>	<u>13,670,931</u>	<u>10,366,906</u>
Net Change in Fund Balance	<u>\$ (9,060,952)</u>	<u>\$ (11,143,952)</u>	<u>1,072,327</u>	<u>\$ 12,216,279</u>
Fund Balance - Beginning of the Year			52,594,176	
Fund Balance - End of the Year			<u>\$ 53,666,503</u>	

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

BUDGETARY BASIS OF ACCOUNTING

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

Budget information is presented for the Authority's only fund. The Authority makes adjustments to its original budget during the year. This enables the effectiveness of the Authority 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 Authority. It is this final revised budget that is presented in these financial statements.

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

OTHER REPORT**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 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 (Authority), a component unit of the County of Napa, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 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 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 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. 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.

Gallina LLP
Roseville, California
October 26, 2012