

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Table of Contents

	<u>Page</u>
<u>Financial Section</u>	
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis	3-6
<u>Basic Financial Statements</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities.....	8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets – Governmental Activities	10
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities – Governmental Activities.....	12
Notes to Financial Statements	13-25
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund	26
Notes to Required Supplementary Information.....	27
<u>Supplementary Information</u>	
Balance Sheet – General Fund Divisions	28
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund Divisions	29
<u>Other Report</u>	
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>	30-31

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Napa County Flood Control
and Water Conservation District
Napa, California

We have audited the accompanying financial statements of the Napa County Flood Control and Water Conservation District (District) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District'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 District'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in 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 a report dated October 19, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the District as a whole. The Balance Sheet – General Fund Divisions and Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund Divisions are presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gallina LLP

Roseville, California
October 19, 2011

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Management's Discussion and Analysis
June 30, 2011

This section of the Napa County Flood Control and Water Conservation District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2011. It should be read in conjunction with the basic financial statements contained in the independent auditor's report.

FINANCIAL HIGHLIGHTS

- As of June 30, 2011, total assets of the District exceeded liabilities by \$148,899,353, the majority is made up of capital assets and assets held for others pertaining to the Napa River Flood Project.
- As of June 30, 2011, the District governmental funds reported combined fund balances of \$50,350,588. Of this amount, \$47,442,343 is restricted for the Napa River Flood Project, and an additional \$2,464,619 is restricted for Flood and Watershed Management.
- The District received \$7,463,766 in water supply contracts during the fiscal year.
- The District received \$20,881,381 in State Subventions for the Napa River Flood Project during the fiscal year.
- The District ended the year with \$52,099,042 in cash held in the County Treasury.

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 District'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 District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District's organization. These statements report the District'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 District.

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District'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.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Management's Discussion and Analysis (continued)
June 30, 2011

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health, or position. Over time, increases or decreases in the District'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 District's capital assets and 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 DISTRICT

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$148.9 million at the close of the most recent fiscal year. A summary of the District's Statement of Net Assets is as follows:

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

	2011	2010	Variance
Current assets	\$ 52,693,878	\$ 36,985,757	\$ 15,708,121
Non-current assets	134,008,147	132,111,442	1,896,705
Total assets	186,702,025	169,097,199	17,604,826
Current liabilities	5,310,613	4,399,463	911,150
Long term liabilities	32,492,059	34,898,738	(2,406,679)
Total liabilities	37,802,672	39,298,201	(1,495,529)
Net assets:			
Invested in capital assets, net of related debt	67,562,998	63,380,384	4,182,614
Restricted	80,892,729	66,020,313	14,872,416
Unrestricted	443,626	398,301	45,325
Total net assets	\$ 148,899,353	\$ 129,798,998	\$ 19,100,355

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Management's Discussion and Analysis (continued)
June 30, 2011

The largest portion of the District's net assets reflects property acquired due to the Napa River/Napa Creek Flood Protection Project being built in connection with the U.S. Army Corps of Engineers. These assets are divided into two categories: Invested in capital assets (e.g. land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding; and restricted assets which are capital assets that have been acquired and will ultimately be transferred to another entity when the project is completed.

Changes in Net Assets

A summary of the District's Statement of Activities, recapping the District's revenues earned during the fiscal years ended June 30, 2011 and June 30, 2010, and the expenses are as follows:

**Condensed Statement of Activities
For the Fiscal Years Ended June 30,**

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Revenues:			
Water sales	\$ 7,463,766	\$ 6,892,478	\$ 571,288
Napa River tributary maintenance	579,585	564,035	15,550
Watershed program assessment	481,563	474,347	7,216
Capital grants	21,063,898	2,211,765	18,852,133
Capital contributions	210,605	--	210,605
Interest income	322,228	478,885	(156,657)
Other revenue	21,700	37,320	(15,620)
Total revenues	<u>30,143,345</u>	<u>10,658,830</u>	<u>19,484,515</u>
Expenses:			
Public protection	10,075,458	10,320,884	(245,426)
Interest on long term debt	967,532	966,455	1,077
Total expenses	<u>11,042,990</u>	<u>11,287,339</u>	<u>(244,349)</u>
Change in net assets	19,100,355	(628,509)	19,728,864
Net assets - Beginning of fiscal year	129,798,998	224,313,158	(94,514,160)
Prior period adjustment	--	(93,885,651)	93,885,651
Net assets - End of fiscal year	<u>\$ 148,899,353</u>	<u>\$ 129,798,998</u>	<u>\$ 19,100,355</u>

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Management's Discussion and Analysis (continued)
June 30, 2011

In 2011, net assets increased by \$19,100,355. This increase is mainly due to the District receiving an increase in State Subventions for the Napa River Flood Project from the prior year.

BUDGETARY HIGHLIGHTS

The District adopts an annual 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 District's budget has historically been adopted by the District Board of Directors on or before June 30th of each year. Section 7(c) of the Napa County Flood Control and Water Conservation District Act ("Act") and Sections 29080 through 29092 of the California Government Code, require that final budgets are adopted no later than October 2 of each year. Subsequent increases or decreases to the original budget must be approved by the Board.

DEBT ADMINISTRATION

The District has outstanding debt of \$34,898,738 (see Note 5) as of June 30, 2011. This amount is comprised of two 20-year loans from the State Revolving Fund established by the State of California Water Resources Control Board as authorized by the Federal Clean Water Act and state law. Additional information about the District's long-term liabilities can be found in the Notes to the Financial Statements section of this report.

CAPITAL ASSETS AND CAPITAL IMPROVEMENT

The District's capital assets include 13 miles of drainage channels which it maintains annually. In addition, in 1999 the District embarked on the largest public works project in County history in conjunction with the U.S. Army Corps of Engineers. The Napa River/Napa Creek Flood Protection Project (Project) extends from Highway 29 at the Butler Bridge on the south to Trancas Street on the north, encompassing six miles of the Napa River and one mile of Napa Creek. The Project is designed to provide a 100-year flood protection level for the City of Napa. Flood water levels are reduced through constructing riverbank terracing, removing or replacing bridges that impede flood flows, and the creation of dry bypass channels at the River and Creek. Additionally, floodwalls, levees and riverside trails are constructed as part of the Project. The U.S. Army Corps of Engineers has updated its estimate of total project costs to \$444.3 million. Upon completion of the Project the District is responsible for operation, repair and maintenance of the entire Project. Additional information regarding the District's capital assets can be found in the Notes to the Financial Statements.

CONTACTING THE DISTRICT

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

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Statement of Net Assets
June 30, 2011

ASSETS

Current Assets:	
Cash in County treasury	\$ 52,099,042
Imprest cash	100
Prepaid items	43,292
Deposits with others	9,653
Assessments receivable - delinquent	28,715
Accounts receivable - water	478,649
Due from other governments	34,427
Total Current Assets	52,693,878
Non-Current Assets:	
Assets held for others	31,546,411
Capital Assets:	
Nondepreciable	98,723,527
Depreciable, net	3,738,209
Total Non-Current Assets	134,008,147
Total Assets	\$ 186,702,025

LIABILITIES

Current Liabilities:	
Accounts payable	\$ 2,328,369
Due to other governments	14,921
Interest payable	560,644
Current portion of loans payable	2,406,679
Total Current Liabilities	5,310,613
Non-Current Liabilities:	
State revolving loan payable	32,492,059
Total Non-Current Liabilities	32,492,059
Total Liabilities	37,802,672

NET ASSETS

Invested in capital assets, net of related debt	67,562,998
Restricted	80,892,729
Unrestricted	443,626
Total Net Assets	148,899,353
Total Liabilities and Net Assets	\$ 186,702,025

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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Statement of Activities
For the Year Ended June 30, 2011

EXPENSES

Public Protection	
Insurance	\$ 37,503
Repairs and maintenance	805,349
Legal charges	101,459
Administration and other charges	117,601
Professional services	543,427
Management information services	44,599
Flood and water study	66,899
Water purchases	7,027,779
Indirect charges	791,276
Depreciation	81,966
Accumulated project costs conveyed	457,600
Interest expense	<u>967,532</u>
 Total Expenses	 <u>11,042,990</u>

PROGRAM REVENUES

Water sales	7,463,766
Capital grants	21,063,898
Capital contributions	210,605
Napa River tributary maintenance	579,585
Watershed program assessment	481,563
Other revenue	<u>21,700</u>
 Total Program Revenues	 <u>29,821,117</u>
 Net Program Revenue	 <u>18,778,127</u>

GENERAL REVENUES

Interest income	<u>322,228</u>
Total General Revenues	<u>322,228</u>
 Change in Net Assets	 19,100,355
 Net Assets - Beginning of Year	 <u>129,798,998</u>
 Net Assets - End of Year	 <u>\$ 148,899,353</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Balance Sheet
Governmental Fund
June 30, 2011

ASSETS

Cash in County treasury	\$ 52,099,042
Imprest cash	100
Prepaid items	43,292
Deposits with others	9,653
Assessments receivable - delinquent	28,715
Accounts receivable - water	478,649
Due from other governments	<u>34,427</u>
 Total Assets	 <u><u>\$ 52,693,878</u></u>

LIABILITIES

Accounts payable	\$ 2,328,369
Due to other governments	<u>14,921</u>
 Total Liabilities	 <u><u>2,343,290</u></u>

FUND BALANCE

Nonspendable - prepaid items	43,292
Restricted for:	
Napa river flood project	47,442,343
Flood and watershed management	2,464,619
Unassigned	<u>400,334</u>
 Total Fund Balances	 <u><u>50,350,588</u></u>
 Total Liabilities and Fund Balances	 <u><u>\$ 52,693,878</u></u>

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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets - Governmental Activities
June 30, 2011

Fund balance - total governmental funds (page 9)	\$ 50,350,588
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.	102,461,736
Assets held for others used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	31,546,411
Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.	(560,644)
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
State revolving loan	<u>(34,898,738)</u>
Net Assets of Governmental Activities (page 7)	<u>\$ 148,899,353</u>

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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2011

REVENUES

Water sales	\$ 7,463,766
Revenue from use of money and property	322,228
Revenue from other governments	21,063,898
Napa River tributary maintenance	579,585
Watershed program assessment	481,563
Other revenue	21,700
Total Revenues	29,932,740

EXPENDITURES

Insurance	37,503
Repairs and maintenance	805,349
Legal charges	101,459
Administration and other charges	117,601
Professional services	543,427
Management information services	44,599
Flood and water study	66,899
Water purchases	7,027,779
Land and damages	1,583,217
Planning, engineering and design	698,032
Construction and management	726,637
Equipment	9,056
Debt service:	
Principal	2,349,589
Interest	910,719
Total Expenditures	15,021,866
Net Change in Fund Balance	14,910,874
Fund Balances - Beginning of Year	35,439,714
Fund Balances - End of Year	\$ 50,350,588

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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2011

Net change to fund balance - total governmental funds (page 11) \$ 14,910,874

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlay and accumulated project costs 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
while the accumulated project costs are held as assets until time of donation.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 1,704,386	
Less current year depreciation	(81,966)	
Expenditures for assets held for others	521,280	
Accumulated project costs conveyed to other agencies	<u>(457,600)</u>	1,686,100

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in governmental funds.

Donated capital assets		210,605
------------------------	--	---------

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 on State Revolving loan		2,349,589
--	--	-----------

Some expenses 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.

Accrued interest on State Revolving loan		<u>(56,813)</u>
--	--	-----------------

Change in Net Assets of Governmental Activities (page 8)		<u><u>\$ 19,100,355</u></u>
--	--	-----------------------------

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

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: Summary of Significant Accounting Policies

A. **Reporting Entity**

The District was formed by the California legislature in 1951 for the purpose of providing flood control and water conservation for Napa County. The District's goals and objectives are to 1) provide protection from flood events to the public highways, life, and property in the District by enhancing and constructing storm drainage systems and flood control and prevention projects and 2) assure that Napa County's domestic, municipal, industrial and agricultural water needs are met.

Operations of the District are divided into four divisions:

Flood & Watershed Management – This division funds a variety of maintenance and management programs designed to minimize the damage caused by flood waters and to protect non-municipal water supplies throughout the county.

Water Supply Contracts – This division meets the responsibilities of the District to ensure that Napa County's municipal, industrial and agricultural water needs are met. The District is the local contracting agency with the State and Federal government for water from the State Water Project and for water from Lake Berryessa. The District, in turn, subcontracts for the sale of the water to local agencies and property owners.

Napa Flood Project – This division contains the expenditures by the District for the Napa River/Napa Creek Flood Protection Project to be built in conjunction with the U.S. Army Corps of Engineers and paid for with the voter approved Measure A, Napa County Flood Protection and Watershed Improvement Sales Tax. The District is the Local Sponsor of this project and is obligated to acquire all necessary lands, easements and rights-of-way, and to relocate existing facilities currently inside the project boundaries, including several bridges, utilities and recreation facilities.

Napa Flood Other – This division contains the District expenses incurred to carry out Measure A compliance work, and to assist the County and other cities in the implementation of their Measure A authorized projects. The portion of Measure A Sales Tax dedicated to General Administration is appropriated to this budget unit, as specified in a Memorandum of Understanding between all Napa County municipalities.

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

A. **Reporting Entity** (continued)

Effective January 1, 1997, the Napa County Flood Control and Water Conservation District Act was amended to reorganize and expand the governing board of the District from a five-member board of directors comprised of the Napa County Board of Supervisors serving ex officio to an eleven-member board of directors composed as follows: five directors who are members of the Napa County Board of Supervisors, serving ex officio; one director who is the mayor of the City of Napa, serving ex officio; four directors who are the mayors of the Cities of Calistoga, St. Helena, and American Canyon, and the Town of Yountville, serving ex officio; and one director who is a member of the Napa City Council, appointed annually by the Napa City Council.

The District is not a component unit of the County of Napa. The District is legally separate and fiscally independent of the County of Napa. The District includes all activities (operations of its administrative staff and District officers) considered to be a part of the District. The District 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 District is financially accountable for other entities. The District has determined that no other outside entity meets the required criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the District is not aware of any entity that would be financially accountable for the District that would result in the District being considered a component unit of that entity.

B. **Basis of Presentation**

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (District). 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, 2011, the District 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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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. Revenues that are not classified as program revenues, including all taxes and investment earnings, are presented instead as general revenues. When both restricted and unrestricted net assets are available, restricted resources are used for only after the unrestricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The District had one governmental fund and no enterprise funds for the year ended June 30, 2011.

The District reports the following major governmental fund:

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

C. 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 District 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.

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, 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

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

C. Basis of Accounting (continued)

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.

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

The County of Napa (County), the Napa County Flood Protection and Watershed Improvement Authority (Authority), the Napa County Flood Control and Water Conservation District (District), the Cities of American Canyon, Napa, St. Helena, Calistoga and the Town of Yountville (Municipalities) each have a representative to the District to be a signatory to the MOU after receiving authority from their Governing Body. This MOU is the precursor to the Joint Powers Agreement Regarding the Equitable Distribution of Flood Protection Sales Tax revenues which was signed November 1, 1998 between the Authority, the District, the County and the Municipalities as required by Section 3(g) and Section 5 of the Napa County Flood Protection Sales Tax Ordinance (97-1), (Ordinance).

The Ordinance requires that new revenues, generated by a ½% 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.

E. Agreement with the City of Napa

In July 1999, the District entered into an agreement with the City of Napa under which the District would delegate to the City the implementation and management of specified tasks related to the Napa River/Napa Creek Flood Control Project (“River Project”). These tasks involve infrastructures over which, upon completion of the project, the City of Napa will retain long-term ownership, maintenance and operation responsibilities, including but not limited to design aspects of reconstruction projects for specified bridges, relocation analyses for the City of Napa’s ball fields, other public recreational use facilities and parking lots, and storm drain analysis.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

F. Receivables

Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

G. Assets Held for Others

Assets held for others consist of costs associated with land acquisition and construction in progress for flood projects that will be donated to other entities (i.e. title and ownership of the assets will be transferred) in accordance with flood agreements. Since these assets will not be used in the District's operations, the assets held for others are not considered to be capital assets of the District.

H. Project Cooperation Agreement with the Department of the Army

On February 1, 2000, the District ("Non-Federal Sponsor") signed a cooperation agreement with the Department of the Army ("Government") for the construction of the Flood Control Project, Napa River, California ("Project"). This construction was authorized by the 1965 Flood Control Act, House Document No. 222, 89th Congress, 1st Session, and modified by the 1976 Flood Control Act. Section 103 of the Water Resources Development Act of 1986, Public Law 99-662, as amended, specifies the cost-sharing requirements applicable to the Project. The Project costs do not include costs for design activities completed prior to 1986, costs for operation, maintenance, repair, replacement, or rehabilitation, costs due to betterments, or any costs of dispute resolution. Upon notification of completion of the entire Project or a functional portion of the Project, the Non-Federal Sponsor shall operate, maintain, repair, replace, and rehabilitate the entire Project or the functional portion of the Project, as provided in the agreement, at no cost to the Government. The Non-Federal Sponsor shall contribute a minimum of 25 percent, but not to exceed 50 percent, of the total project flood control costs in accordance with certain provisions. The Non-Federal Sponsor shall also contribute 50 percent of total project recreation costs. The Government shall perform a final accounting to determine the contributions provided by the Non-Federal Sponsor, and to determine whether the Non-Federal Sponsor has met its obligations. Each party to the agreement is responsible for certain parts of the Project. Prior to the end of the period of construction, the Non-Federal Sponsor shall, as determined by the Government, acquire all lands, easements, and rights-of-way, as well as improvements required on lands, easements, and rights-of-way to enable the proper disposal of dredged or excavated material associated with the construction, operation, and maintenance of the Project. The Non-Federal Sponsor shall also perform, or ensure the performance, of relocations necessary for the construction, operation, and maintenance of

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

H. Project Cooperation Agreement with the Department of the Army (continued)

the Project, including those necessary to enable the removal of borrow materials and the proper disposal of dredged or excavated material. The Non-Federal Sponsor shall receive credit toward its share of total project flood control costs for the value of the lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas, as well as for the value of the relocations it either performed or ensured the performance thereof. The U.S. Army Corps of Engineers most recent estimate of total Project costs was \$444.3 million. During fiscal year 2010-2011, the U.S. Army Corps of Engineers expended \$5.8 million in construction funds and \$35.5 million in Federal Stimulus (ARRA) funds on this project. The Non-Federal Sponsor is also responsible for a certain amount of cash contribution, from which the Government shall draw as deemed necessary to cover the non-Federal proportionate share for financial obligations for construction incurred prior to the commencement of the period of construction, and during the period of construction.

I. Capital Assets

Capital assets (including infrastructure) 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. Capital assets include public domain (infrastructure) consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 for equipment and \$150,000 for building and improvements and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or 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.

The estimated useful lives are as follows:

Equipment	5 years
Buildings and improvements	25 to 30 years
Infrastructures	50 to 100 years

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

J. Interfund Transactions

Interfund transactions are reflected either as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces the related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide presentation.

K. Insurance and Risk of Loss

The District 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 District participates in the County of Napa’s risk pool. Claims in excess of \$350,000 for workers compensation and \$300,000 for general liability are covered according to the terms of the risk pool agreement with CSAC – Excess Insurance Authority (EIA).

L. Use of 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.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

M. Implementation of New Standards

Governmental Accounting Standards Board Statement 54

For the fiscal year ended June 30, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes new accounting and financial reporting standards for all governments that report governmental funds. The statement provides more clearly defined categories within fund balance to make the nature and extent of the constraints placed on the fund balance more transparent. GASB 54 also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund statements. Implementation of GASB 54 required changed presentation of fund balance and new reporting disclosures.

Note 2: **Cash and Investments**

Cash at June 30, 2011, consisted of the following:

Cash in County treasury	<u>\$ 52,099,042</u>
-------------------------	----------------------

The District 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 Comprehensive Annual Financial Report (CAFR). The County of Napa's CAFR may be obtained by contacting the County of Napa's Auditor-Controller's Office at 1195 Third Street, Suite B-10, Napa, California 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Required disclosures for the District's deposit and investment risks at June 30, 2011, 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. The District has no deposit or investment policy that addresses a specific type of risk.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 3: **Assets Held for Others**

For the fiscal year ended June 30, 2011, the change in assets held for others was as follows:

	Balance at July 1, 2010	Additions	Retirements	Balance at June 30, 2011
Land held for others	\$ 3,641,245	\$ --	\$ (457,600)	\$ 3,183,645
Construction in progress	27,841,486	521,280	--	28,362,766
Total Assets Held for Others	\$ 31,482,731	\$ 521,280	\$ (457,600)	\$ 31,546,411

Note 4: **Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Retirements/ Adjustments	Balance at June 30, 2011
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 77,861,286	\$ 787,897	\$ --	\$ 78,649,183
Construction in progress	17,770,771	822,813	--	18,593,584
Intangible assets	1,185,535	295,225	--	1,480,760
Total capital assets, not being depreciated	96,817,592	1,905,935	--	98,723,527
<i>Capital assets, being depreciated:</i>				
Equipment	72,430	9,056	--	81,486
Infrastructure	7,291,779	--	--	7,291,779
Total capital assets, being depreciated	7,364,209	9,056	--	7,373,265
<i>Less accumulated depreciation for:</i>				
Equipment	(56,336)	(7,621)	--	(63,957)
Infrastructure	(3,496,754)	(74,345)	--	(3,571,099)
Total accumulated depreciation	(3,553,090)	(81,966)	--	(3,635,056)
Total capital assets, being depreciated, net	3,811,119	(72,910)	--	3,738,209
Government activities capital assets, net	\$ 100,628,711	\$ 1,833,025	\$ --	\$ 102,461,736

Depreciation expense of \$81,966 was charged to the public protection function.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 5: **Long-Term Liabilities**

On June 1, 1999, the Napa County Flood Control and Water Conservation District entered into a contract with the State Water Resources Control Board (“SWRCB”), where the Napa River/Napa Creek Flood Protection and Estuary Restoration Project is eligible for a 20-year revolving loan from the State Revolving Fund established by the SWRCB as authorized by the Federal Clean Water Act and state law. The maximum loan amount was established at \$34 million with an interest rate of 2.4 percent. Principal and interest on the loan were payable on December 21, 2001, and annually thereafter on December 21st of each year.

On October 23, 2003, the Napa County Flood Control and Water Conservation District entered into a contract with the SWRCB, where the Napa River/Napa Creek Flood Protection and Estuary Restoration Project is eligible for a 20-year revolving loan from the State Revolving Fund established by the SWRCB as authorized by the Federal Clean Water Act and state law. The maximum loan amount was established at \$16 million with an interest rate of 2.5 percent. Principal and interest payments began August 1, 2009, at which time accrued interest to date was added to principal owed. Subsequent payments are payable annually on August 1st of each year.

The amount drawn against the loans was \$50 million as of June 30, 2011.

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Amounts Due Within One Year
State revolving loan	\$ 37,248,327	\$ --	\$ (2,349,589)	\$ 34,898,738	\$ 2,406,679

Annual debt service requirements are estimated as follows:

Fiscal Year Ending	Principal	Interest	Total
2012	\$ 2,406,679	\$ 853,629	\$ 3,260,308
2013	2,465,157	795,152	3,260,309
2014	2,525,056	735,252	3,260,308
2015	2,586,411	673,897	3,260,308
2016	2,649,257	611,051	3,260,308
2017-2021	14,243,767	2,057,772	16,301,539
2022-2026	4,826,910	767,414	5,594,324
2027-2029	3,195,501	161,090	3,356,591
Total	\$ 34,898,738	\$ 6,655,257	\$ 41,553,995

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 6: Net Assets/Fund Balance

Net Assets

The government-wide fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted. At this time, the District has only invested in capital assets and unrestricted net assets.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spend. As of June 30, 2011, 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 District itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level of action to remove or change the constraint.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 6: **Net Assets/Fund Balance** (continued)

Fund Balances (continued)

- *Assigned fund balance* – amounts the District intends to use for a specific purpose. Intent can be expressed by the District's board or by an official or body to which the District's board delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the District have been restated to reflect the above classifications.

The District's board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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.

Note 7: **Related Party Transactions**

During the fiscal year ended June 30, 2011, the District paid the County of Napa, a related party, \$1,711,043, of which \$1,405,527 was for engineering services and administration fees and \$305,516 was for legal, accounting and other support services.

Also, during the fiscal year ended June 30, 2011, the District paid the City of Napa, a related party, \$270,510 pursuant to the agreement described in Note 1-E for project management and administrative-related costs.

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 8: **Contingent Liabilities**

The District participates in a federal grant program which is subject to examination by the grantor and the amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time. The District expects such amounts, if any, to be immaterial.

The District is a plaintiff in a few eminent domain cases related to property acquisitions required for the Napa River/Napa Creek Flood Protection District. No liability has been accrued on the District's financial statements because of the uncertainty of the outcome of these cases. Most cases are expected to settle without going to trial in the near future. In the opinion of the County Counsel, any pending litigation is not likely to have a material effect on the financial position of the District.

REQUIRED SUPPLEMENTARY INFORMATION

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<u>REVENUES</u>				
Water sales	\$ 9,412,167	\$ 9,412,167	\$ 7,463,766	\$ (1,948,401)
Revenue from use of money and property	1,045,000	1,045,000	322,228	(722,772)
Revenues from other governments	15,632,791	15,632,791	21,063,898	5,431,107
Napa River tributary maintenance	562,000	562,000	579,585	17,585
Watershed program assessment	483,160	483,160	481,563	(1,597)
Other revenue	22,000	22,000	21,700	(300)
Total Revenues	<u>27,157,118</u>	<u>27,157,118</u>	<u>29,932,740</u>	<u>2,775,622</u>
<u>EXPENDITURES</u>				
Insurance	37,528	37,528	37,503	25
Repairs and maintenance	1,718,702	1,718,652	805,349	913,303
Legal charges	170,000	170,000	101,459	68,541
Administration and other charges	354,439	354,489	117,601	236,888
Professional services	3,140,485	3,140,485	543,427	2,597,058
Management information services	44,648	44,648	44,599	49
Flood and water study	60,000	60,000	66,899	(6,899)
Water purchases	6,772,000	6,772,000	7,027,779	(255,779)
Land and damages	5,839,090	5,804,482	1,583,217	4,221,265
Planning, engineering and design	1,114,238	1,191,709	698,032	493,677
Construction and management	10,189,762	10,146,899	726,637	9,420,262
Equipment	15,000	15,000	9,056	5,944
Debt service:				
Principal	2,350,000	2,350,000	2,349,589	411
Interest	911,000	911,000	910,719	281
Total Expenditures	<u>32,716,892</u>	<u>32,716,892</u>	<u>15,021,866</u>	<u>17,695,026</u>
Net Change in Fund Balance	<u>\$ (5,559,774)</u>	<u>\$ (5,559,774)</u>	14,910,874	<u>\$ 20,470,648</u>
Fund Balance - Beginning of Year			<u>35,439,714</u>	
Fund Balance - End of Year			<u>\$ 50,350,588</u>	

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Notes to Required Supplementary Information
For the Year Ended June 30, 2011

BUDGETARY BASIS OF ACCOUNTING

The District 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.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Board 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 Board. During the fiscal year ended June 30, 2011, the Board of Directors approved all necessary supplemental appropriations.

An operating budget is adopted each fiscal year on the modified accrual basis, and accounting principles applied for purposes of developing data on a budgetary basis are materially the same as those used to present financial statements in conformity with GAAP. 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.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level except for fixed assets which are controlled at the subobject level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, other charges including debt service, capital outlay, contingencies, expenditure transfers, and other financing uses. Subject levels of expenditures for fixed assets are land, structures and improvements, and equipment.

SUPPLEMENTARY INFORMATION

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Balance Sheet
General Fund Divisions
June 30, 2011

	Flood & Watershed Management	Water Supply Contracts	Napa Flood Projects	Napa Flood Other	Total
<u>ASSETS</u>					
Cash in County treasury	\$ 2,557,290	\$ 369,629	\$ 49,172,123	\$ --	\$ 52,099,042
Imprest cash	--	--	100	--	100
Prepaid items	--	43,292	--	--	43,292
Deposits with others	--	--	9,653	--	9,653
Assessments receivable - delinquent	28,715	--	--	--	28,715
Accounts receivable - water	--	478,373	276	--	478,649
Due from other governments	34,427	--	--	--	34,427
	<u>34,427</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>34,427</u>
Total Assets	<u>\$ 2,620,432</u>	<u>\$ 891,294</u>	<u>\$ 49,182,152</u>	<u>\$ --</u>	<u>\$ 52,693,878</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 155,813	\$ 432,747	\$ 1,739,809	\$ --	\$ 2,328,369
Due to other governments	--	14,921	--	--	14,921
	<u>--</u>	<u>14,921</u>	<u>--</u>	<u>--</u>	<u>14,921</u>
Total Liabilities	<u>155,813</u>	<u>447,668</u>	<u>1,739,809</u>	<u>--</u>	<u>2,343,290</u>
<u>FUND BALANCE</u>					
Nonspendable - prepaid items	--	43,292	--	--	43,292
Restricted for:					
Napa river flood project	--	--	47,442,343	--	47,442,343
Flood and watershed management	2,464,619	--	--	--	2,464,619
Unassigned	--	400,334	--	--	400,334
	<u>--</u>	<u>400,334</u>	<u>--</u>	<u>--</u>	<u>400,334</u>
Total Fund Balances	<u>2,464,619</u>	<u>443,626</u>	<u>47,442,343</u>	<u>--</u>	<u>50,350,588</u>
Total Liabilities and Fund Balances	<u>\$ 2,620,432</u>	<u>\$ 891,294</u>	<u>\$ 49,182,152</u>	<u>\$ --</u>	<u>\$ 52,693,878</u>

**NAPA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT**

Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund Divisions
For the Year Ended June 30, 2011

	Flood & Watershed Management	Water Supply Contracts	Napa Flood Projects	Napa Flood Other	Total
<u>REVENUES</u>					
Water sales	\$ --	\$ 7,463,766	\$ --	\$ --	\$ 7,463,766
Revenue from use of money and property	19,595	3,145	299,488	--	322,228
Revenue from other governments	136,235	--	20,881,381	46,282	21,063,898
Napa River tributary maintenance	579,585	--	--	--	579,585
Watershed program assessment	481,563	--	--	--	481,563
Other revenue	21,700	--	--	--	21,700
Total Revenues	<u>1,238,678</u>	<u>7,466,911</u>	<u>21,180,869</u>	<u>46,282</u>	<u>29,932,740</u>
<u>EXPENDITURES</u>					
Insurance	--	--	37,024	479	37,503
Repairs and maintenance	603,855	--	201,494	--	805,349
Legal charges	512	100,947	--	--	101,459
Administration and other charges	70,885	994	--	45,722	117,601
Professional services	274,728	268,699	--	--	543,427
Management information services	21,351	23,167	--	81	44,599
Flood and water study	66,899	--	--	--	66,899
Water purchases	--	7,027,779	--	--	7,027,779
Land and damages	--	--	1,583,217	--	1,583,217
Planning, engineering and design	--	--	698,032	--	698,032
Construction and management	--	--	726,637	--	726,637
Equipment	9,056	--	--	--	9,056
Debt service:					
Principal	--	--	2,349,589	--	2,349,589
Interest	--	--	910,719	--	910,719
Total Expenditures	<u>1,047,286</u>	<u>7,421,586</u>	<u>6,506,712</u>	<u>46,282</u>	<u>15,021,866</u>
Net Change in Fund Balance	191,392	45,325	14,674,157	--	14,910,874
Fund Balances - Beginning of Year	<u>2,273,227</u>	<u>398,301</u>	<u>32,768,186</u>	<u>--</u>	<u>35,439,714</u>
Fund Balances - End of Year	<u>\$ 2,464,619</u>	<u>\$ 443,626</u>	<u>\$ 47,442,343</u>	<u>\$ --</u>	<u>\$ 50,350,588</u>

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 Control
and Water Conservation District
Napa, California

We have audited the financial statements of the governmental activities and each major fund of the Napa County Flood Control and Water Conservation District (District) as of and for the year ended June 30, 2011, which collectively comprise the District's financial statements and have issued our report thereon dated October 19, 2011. 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 District'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 an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements will not be prevented, or detected 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 District'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 solely for the information and use of management, the Board of Directors, 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 19, 2011