

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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## **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 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 respective financial position of the governmental activities and major funds of the District as of June 30, 2010, 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 a report dated November 9, 2010, 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.

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

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 performed for the purpose of forming opinions on the basic financial statements of the District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GALLINA LLP

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned to the right of the printed name "GALLINA LLP".

Roseville, California  
November 9, 2010

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

Management's Discussion and Analysis  
June 30, 2010

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, 2010. It should be read in conjunction with the basic financial statements contained in the independent auditor's report.

## **FINANCIAL HIGHLIGHTS**

At the close of the 2009-2010 fiscal year, total assets of the District exceeded liabilities by \$129,798,998. Of this amount, \$63,380,384 is invested in capital assets, net of related debt. The remaining \$66,418,614 represents unrestricted assets, which must be used to meet ongoing obligations for flood control and water conservation purposes.

As of June 30, 2010, the District governmental funds reported combined fund balances of \$35,439,714.

## **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.

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

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

Management's Discussion and Analysis  
June 30, 2010

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 \$129.8 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,**

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Current assets	\$ 36,985,757	\$ 46,462,463	\$ (9,476,706)
Non-current assets	132,111,442	219,926,121	(87,814,679)
<b>Total assets</b>	<u>169,097,199</u>	<u>266,388,584</u>	<u>(97,291,385)</u>
Current liabilities	4,399,463	4,827,099	(427,636)
Long term liabilities	34,898,738	37,248,327	(2,349,589)
<b>Total liabilities</b>	<u>39,298,201</u>	<u>42,075,426</u>	<u>(2,777,225)</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	63,380,384	152,513,353	(89,132,969)
Unrestricted	66,418,614	71,799,805	(5,381,191)
<b>Total net assets</b>	<u>\$ 129,798,998</u>	<u>\$ 224,313,158</u>	<u>\$ (94,514,160)</u>

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

Management's Discussion and Analysis  
June 30, 2010

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The majority of the investment in capital assets, net of related debt is due to the Napa River/Napa Creek Flood Protection Project being built in connection with the U.S. Army Corps of Engineers. The Project's major funding source is the Measure A ½ percent Sales Tax approved by voters in 1998. The sales tax is collected by the Napa County Flood Protection and Watershed Improvement Authority and flows to the District via a funding agreement.

The unrestricted net assets will be used to meet the District's ongoing obligations to citizens, customers and creditors.

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

Management's Discussion and Analysis  
June 30, 2010

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, 2010, and June 30, 2009, and the expenses are as follows:

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

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<b>Revenues:</b>			
Charges for services	\$ 6,892,478	\$ 6,405,236	\$ 487,242
Napa River tributary maintenance	564,035	540,558	23,477
Watershed program assessment	474,347	458,370	15,977
Capital grants	2,211,765	20,953,627	(18,741,862)
Interest income	478,885	1,116,893	(638,008)
Other revenue	37,320	25,436	11,884
<b>Total revenues</b>	<u>10,658,830</u>	<u>29,500,120</u>	<u>(18,841,290)</u>
<b>Expenses:</b>			
Public protection	10,320,884	51,920,512	(41,599,628)
Interest on long term debt	966,455	822,354	144,101
<b>Total expenses</b>	<u>11,287,339</u>	<u>52,742,866</u>	<u>(41,455,527)</u>
Change in net assets	(628,509)	(23,242,746)	22,614,237
Net assets - Beginning of fiscal year	224,313,158	247,555,904	(23,242,746)
Prior period adjustment	(93,885,651)	-	(93,885,651)
<b>Net assets - End of fiscal year</b>	<u>\$ 129,798,998</u>	<u>\$ 224,313,158</u>	<u>\$ (94,514,160)</u>

In 2010, net assets decreased by \$628,509. This decrease is primarily due to transferring accumulated project costs of approximately \$1.1 million to other entities as the work has been completed.

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

Management's Discussion and Analysis  
June 30, 2010

## **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 30<sup>th</sup> 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 \$37,248,327 (see Note 6) as of June 30, 2010. 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 oxbows. 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 \$429.3 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.

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

Management's Discussion and Analysis  
June 30, 2010

**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, 2010

**ASSETS**

Current Assets:

Cash in County treasury	\$ 36,659,532
Imprest cash	100
Interest receivable	522
Prepaid items	55,036
Deposits with others	9,653
Assessments receivable - delinquent	31,073
Accounts receivable - water	61,960
Due from other governments	167,881
Total Current Assets	36,985,757

Non-Current Assets:

Assets held for others	31,482,731
Capital Assets:	
Nondepreciable	96,817,592
Depreciable, net	3,811,119
Total Non-Current Assets	132,111,442

Total Assets	\$ 169,097,199
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**LIABILITIES**

Current Liabilities:

Accounts payable	\$ 1,375,459
Due to other governments	162,870
Interest payable	503,831
Unearned revenue	7,714
Current portion of loans payable	2,349,589
Total Current Liabilities	4,399,463

Non-Current Liabilities:

State revolving loan payable	34,898,738
Total Non-Current Liabilities	34,898,738

Total Liabilities	39,298,201
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**NET ASSETS**

Invested in capital assets, net of related debt	63,380,384
Unrestricted	66,418,614

Total Net Assets	129,798,998
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Total Liabilities and Net Assets	\$ 169,097,199
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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, 2010

**EXPENSES**

Public Protection	
Insurance	\$ 9,032
Repairs and maintenance	767,695
Legal charges	101,867
Other charges	56,912
Administration charges	136,445
Professional services	1,636,536
Management information services	37,593
Flood and water study	79,979
Utilities	5,634,764
Indirect charges	674,875
Depreciation	81,061
Interest expense	966,455
Accumulated project costs conveyed	<u>1,104,125</u>
Total Expenses	<u>11,287,339</u>

**PROGRAM REVENUES**

Water sales	6,892,478
Capital grants	2,211,765
Napa River tributary maintenance	564,035
Watershed program assessment	474,347
Other revenue	<u>37,320</u>
Total Program Revenues	<u>10,179,945</u>
Net Program Expense	<u>(1,107,394)</u>

**GENERAL REVENUES**

Interest income	<u>478,885</u>
Total General Revenues	<u>478,885</u>
Change in Net Assets	(628,509)
Net Assets - Beginning of Year, restated	<u>130,427,507</u>
Net Assets - End of Year	<u><u>\$ 129,798,998</u></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 Funds  
June 30, 2010

	Flood & Watershed Management	Water Supply Contracts	Napa Flood Projects	Napa Flood Other	Total
<b><u>ASSETS</u></b>					
Cash in County treasury	\$ 2,252,022	\$ 366,786	\$ 34,040,275	\$ 449	\$ 36,659,532
Imprest cash	--	--	100	--	100
Interest receivable	--	--	522	--	522
Prepaid items	--	55,036	--	--	55,036
Deposits with others	--	--	9,653	--	9,653
Assessments receivable - delinquent	31,073	--	--	--	31,073
Accounts receivable - water	--	61,960	--	--	61,960
Due from other governments	108,731	--	59,150	--	167,881
	<u>108,731</u>	<u>--</u>	<u>59,150</u>	<u>--</u>	<u>167,881</u>
Total Assets	<u>\$ 2,391,826</u>	<u>\$ 483,782</u>	<u>\$ 34,109,700</u>	<u>\$ 449</u>	<u>\$ 36,985,757</u>
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ 50,668	\$ 1,422	\$ 1,322,920	\$ 449	\$ 1,375,459
Unearned revenue	7,714	--	--	--	7,714
Due to other governments	60,217	84,059	18,594	--	162,870
	<u>60,217</u>	<u>84,059</u>	<u>18,594</u>	<u>--</u>	<u>162,870</u>
Total Liabilities	<u>118,599</u>	<u>85,481</u>	<u>1,341,514</u>	<u>449</u>	<u>1,546,043</u>
<b><u>FUND BALANCE</u></b>					
Reserve for:					
Imprest cash	--	--	100	--	100
General purposes	213,861	150,711	946,610	--	1,311,182
Unreserved:					
Designated:					
General	157,474	247,590	20,345,923	--	20,750,987
Insurance flood	300,000	--	300,000	--	600,000
Dredging flood	312,000	--	--	--	312,000
Undesignated	1,289,892	--	11,175,553	--	12,465,445
	<u>1,289,892</u>	<u>--</u>	<u>11,175,553</u>	<u>--</u>	<u>12,465,445</u>
Total Fund Balances	<u>2,273,227</u>	<u>398,301</u>	<u>32,768,186</u>	<u>--</u>	<u>35,439,714</u>
Total Liabilities and Fund Balances	<u>\$ 2,391,826</u>	<u>\$ 483,782</u>	<u>\$ 34,109,700</u>	<u>\$ 449</u>	<u>\$ 36,985,757</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, 2010

Fund balance - total governmental funds (page 11)	\$ 35,439,714
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.	100,628,711
Assets held for others used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	31,482,731
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.	(503,831)
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>(37,248,327)</u>
Net Assets of Governmental Activities (page 9)	<u>\$ 129,798,998</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 Funds  
For the Year Ended June 30, 2010

<b><u>REVENUES</u></b>	Flood & Watershed Management	Water Supply Contracts	Napa Flood Projects	Napa Flood Other	Total
Water sales	\$ --	\$ 6,892,478	\$ --	\$ --	\$ 6,892,478
Revenue from use of money and property	25,236	5,885	447,981	(217)	478,885
Revenue from other governments	198,955	--	1,954,829	57,981	2,211,765
Napa River tributary maintenance	564,035	--	--	--	564,035
Watershed program assessment	474,347	--	--	--	474,347
Other revenue	36,930	--	390	--	37,320
Total Revenues	<u>1,299,503</u>	<u>6,898,363</u>	<u>2,403,200</u>	<u>57,764</u>	<u>10,658,830</u>
 <b><u>EXPENDITURES</u></b>					
Insurance	8,540	--	--	492	9,032
Repairs and maintenance	532,807	--	234,888	--	767,695
Legal charges	472	101,395	--	--	101,867
Other charges	56,637	275	--	--	56,912
Administration charges	79,321	--	--	57,124	136,445
Professional services	326,931	1,309,605	--	--	1,636,536
Management information services	19,042	18,403	--	148	37,593
Flood and water study	79,979	--	--	--	79,979
Utilities	--	5,634,764	--	--	5,634,764
Land and damages	--	--	2,911,475	--	2,911,475
Planning, engineering and design	--	--	664,350	--	664,350
Construction	--	--	4,347,041	--	4,347,041
Equipment	8,167	--	--	--	8,167
Debt service:					
Principal	--	--	2,293,854	--	2,293,854
Interest	--	--	966,455	--	966,455
Total Expenditures	<u>1,111,896</u>	<u>7,064,442</u>	<u>11,418,063</u>	<u>57,764</u>	<u>19,652,165</u>
Net Change in Fund Balance	187,607	(166,079)	(9,014,863)	--	(8,993,335)
Fund Balances - Beginning of Year	<u>2,085,620</u>	<u>564,380</u>	<u>41,783,049</u>	<u>--</u>	<u>44,433,049</u>
Fund Balances - End of Year	<u>\$ 2,273,227</u>	<u>\$ 398,301</u>	<u>\$ 32,768,186</u>	<u>\$ --</u>	<u>\$ 35,439,714</u>

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, 2010

Net change to fund balance - total governmental funds (page 13) \$ (8,993,335)

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	\$ 4,823,658	
Less current year depreciation	(81,061)	
Expenditures for assets held for others	2,432,500	
Accumulated project costs conveyed to other agencies	<u>(1,104,125)</u>	6,070,972

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	<u>2,293,854</u>
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Change in Net Assets of Governmental Activities (page 10)	<u><u>\$ (628,509)</u></u>
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The accompanying notes are an integral part of these financial statements.

# NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Notes to Financial Statements  
June 30, 2010

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.

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

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

Notes to Financial Statements  
June 30, 2010

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

**B. Basis of Presentation** (continued)

*Government-Wide Financial Statements* (continued)

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, 2010, 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 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 four governmental funds and no enterprise funds for the year ended June 30, 2010.

The District reports the following major governmental funds:

- Flood & Watershed Management – This unit 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 unit 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 COUNTY FLOOD CONTROL AND  
WATER CONSERVATION DISTRICT**

Notes to Financial Statements  
June 30, 2010

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

**B. Basis of Presentation** (continued)

*Fund Financial Statements* (continued)

- Napa Flood Projects – This unit 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 unit 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.

**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 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.

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

Notes to Financial Statements  
June 30, 2010

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

**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 Financial Statements  
June 30, 2010

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

**F. 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, 89<sup>th</sup> Congress, 1<sup>st</sup> 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 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 \$429.3 million. 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.

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

Notes to Financial Statements  
June 30, 2010

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

**G. Receivables**

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

**H. 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.

**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 Financial Statements  
June 30, 2010

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 Financial Statements  
June 30, 2010

Note 2: **Cash and Investments**

Cash at June 30, 2010, consisted of the following:

Cash in County treasury	<u>\$ 36,659,532</u>
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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, 2010, 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.

Note 3: **Assets Held for Others**

For the fiscal year ended June 30, 2010, the change in assets held for others was as follows:

	<sup>1</sup> Restated Balance at <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2010</u>
Land held for others	\$ 3,641,245	\$ --	\$ --	\$ 3,641,245
Construction in progress	<u>26,513,111</u>	<u>2,432,500</u>	<u>(1,104,125)</u>	<u>27,841,486</u>
<b>Total Assets Held for Others</b>	<u>\$ 30,154,336</u>	<u>\$ 2,432,500</u>	<u>\$ (1,104,125)</u>	<u>\$ 31,482,731</u>

<sup>1</sup> See note 10 for a further description of the restatement of beginning balances.

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

Notes to Financial Statements  
June 30, 2010

Note 4: **Capital Assets**

Capital asset activity for the year ended June 30, 2010, was as follows:

<b>Governmental Activities</b>	<sup>1</sup> Restated Balance at July 1, 2009	Additions	Retirements/ Adjustments	Balance at June 30, 2010
<i>Capital assets, not being depreciated:</i>				
Land	\$ 76,723,163	\$ 1,653,611	\$ (515,488)	\$ 77,861,286
Construction in progress	15,270,771	2,500,000	--	17,770,771
Intangible assets	--	670,047	515,488	1,185,535
Total Capital Assets, Not Being Depreciated	<u>91,993,934</u>	<u>4,823,658</u>	<u>--</u>	<u>96,817,592</u>
<i>Capital assets, being depreciated:</i>				
Equipment	72,430	--	--	72,430
Infrastructure	<u>7,291,779</u>	<u>--</u>	<u>--</u>	<u>7,291,779</u>
Total Capital Assets, Being Depreciated	<u>7,364,209</u>	<u>--</u>	<u>--</u>	<u>7,364,209</u>
<i>Less accumulated depreciation for:</i>				
Equipment	(49,620)	(6,716)	--	(56,336)
Infrastructure	<u>(3,422,409)</u>	<u>(74,345)</u>	<u>--</u>	<u>(3,496,754)</u>
Total Accumulated Depreciation	<u>(3,472,029)</u>	<u>(81,061)</u>	<u>--</u>	<u>(3,553,090)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,892,180</u>	<u>(81,061)</u>	<u>--</u>	<u>3,811,119</u>
Governmental Activities Capital Assets, Net	<u>\$ 95,886,114</u>	<u>\$ 4,742,597</u>	<u>\$ --</u>	<u>\$ 100,628,711</u>

<sup>1</sup> See note 10 for a further description of the restatement of beginning balances.

Depreciation expense of \$81,061 was charged to the public protection function.

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 21<sup>st</sup> 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 do not begin until August 1, 2009, at which time accrued interest to date will be added to principal owed. Subsequent payments will be payable annually on August 1<sup>st</sup> of each year.

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

Notes to Financial Statements  
June 30, 2010

Note 6: **Long-Term Liabilities** (continued)

The amount drawn against the loan was \$50 million as of June 30, 2010.

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>	<u>Amounts Due Within One Year</u>
State revolving loan	\$ 39,542,181	\$ --	\$ (2,293,854)	\$ 37,248,327	\$ 2,349,589

Annual debt service requirements are estimated as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2,349,589	910,719	3,260,308
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
2016-2020	13,905,864	2,395,676	16,301,540
2021-2025	6,800,433	935,333	7,735,766
2026-2030	<u>4,209,138</u>	<u>266,320</u>	<u>4,475,458</u>
Total	<u>\$ 37,248,327</u>	<u>\$ 7,565,978</u>	<u>\$ 44,814,305</u>

Note 7: **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.

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

Notes to Financial Statements  
June 30, 2010

Note 7: **Net Assets/Fund Balance** (continued)

**Net Assets** (continued)

- *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**

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2010, reservations of fund balance are described below:

The term “reserved” is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The District’s management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The District has “reserved” fund balances as follows:

- *Reserve for Imprest Cash* was created to represent the portion of the fund balance that is not available for expenditure because the District maintains various levels of a revolving fund for daily operations.
- *Reserve for General Purposes* are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

*Designations of Unreserved Fund Balance* are created to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or debt service. Such plans or intent are subject to change and have not been legally authorized and do not represent commitments of the District.

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

Notes to Financial Statements  
June 30, 2010

Note 8: **Related Party Transactions**

During the fiscal year ended June 30, 2010, the District paid the County of Napa, a related party, \$2,044,594, of which \$1,622,000 was for engineering services and administration fees and \$422,594 was for legal, accounting and other support services.

Also, during the fiscal year ended June 30, 2010, the District paid the City of Napa, a related party, \$240,864 pursuant to the agreement described in Note 1-E for project management and administrative-related costs. Additionally, the District paid the City \$79,053 in water charges.

Note 9: **Contingent Liabilities**

The District participates in a federal grant program. This program has been audited in accordance with the provisions of the Single Audit Act, OMB Circular A-133 and applicable state requirements. No cost disallowances were proposed as a result of this audit. However, this program is still subject to further 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.

Note 10: **Prior Period Adjustment**

During the course of the Flood Project, the District capitalized the costs incurred by the Department of the Army as assets donated each year. It was determined during the current year, that the Department of the Army has not yet donated any asset to the District.

224,313,158		Net Assets - Beginning of Year
(519,683)		Removal of items capitalized in prior periods that do not meet capitalization criteria
(95,649,737)		Removal of capital assets previously recorded as conveyed from the Department of the Army
(1,487,937)		Removal of assets held for others previously recorded as conveyed from the Department of the Army
3,771,706		Add back of asset mistakenly removed once in 2007 and again in 2008
130,427,507		Net Assets - Beginning of Year, restated

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Budgetary Comparison Schedule  
Flood & Watershed Management  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b><u>REVENUES</u></b>				
Revenue from use of money and property	\$ 35,000	\$ 35,000	\$ 25,236	\$ (9,764)
Revenues from other governments	414,000	414,000	198,955	(215,045)
Napa River tributary maintenance	551,000	551,000	564,035	13,035
Watershed program assessment	378,000	378,000	474,347	96,347
Other revenue	22,000	22,000	36,930	14,930
Total Revenues	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,299,503</u>	<u>(100,497)</u>
<b><u>EXPENDITURES</u></b>				
Insurance	8,293	8,293	8,540	(247)
Repairs and maintenance	988,160	988,110	532,807	455,303
Legal charges	10,000	10,000	472	9,528
Other charges	235,000	235,000	56,637	178,363
Administration charges	42,000	42,050	79,321	(37,271)
Professional services	692,153	682,153	326,931	355,222
Management information services	5,000	15,000	19,042	(4,042)
Flood and water study	153,000	153,000	79,979	73,021
Equipment	15,000	15,000	8,167	6,833
Total Expenditures	<u>2,148,606</u>	<u>2,148,606</u>	<u>1,111,896</u>	<u>1,036,710</u>
Net Change in Fund Balance	<u>\$ (748,606)</u>	<u>\$ (748,606)</u>	187,607	<u>\$ 936,213</u>
Fund Balance - Beginning of Year			<u>2,085,620</u>	
Fund Balance - End of Year			<u>\$ 2,273,227</u>	

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

Budgetary Comparison Schedule  
Water Supply Contracts  
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Water sales	\$ 8,272,711	\$ 8,272,711	\$ 6,892,478	\$ (1,380,233)
Revenue from use of money and property	25,000	25,000	5,885	(19,115)
Total Revenues	<u>8,297,711</u>	<u>8,297,711</u>	<u>6,898,363</u>	<u>(1,399,348)</u>
<b><u>EXPENDITURES</u></b>				
Legal charges	160,000	160,000	101,395	58,605
Other charges	3,000	3,000	275	2,725
Professional services	1,569,308	1,569,308	1,309,605	259,703
Management information services	18,403	18,403	18,403	--
Utilities	6,522,000	6,522,000	5,634,764	887,236
Total Expenditures	<u>8,272,711</u>	<u>8,272,711</u>	<u>7,064,442</u>	<u>1,208,269</u>
Net Change in Fund Balance	<u>\$ 25,000</u>	<u>\$ 25,000</u>	(166,079)	<u>\$ (191,079)</u>
Fund Balance - Beginning of Year			<u>564,380</u>	
Fund Balance - End of Year			<u>\$ 398,301</u>	

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

Budgetary Comparison Schedule  
Napa Flood Projects  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b><u>REVENUES</u></b>				
Revenue from use of money and property	\$ 900,000	\$ 900,000	\$ 447,981	\$ (452,019)
Revenue from other governments	8,000,000	8,000,000	1,954,829	(6,045,171)
Other revenue	10,000,000	10,000,000	390	(9,999,610)
Total Revenues	<u>18,900,000</u>	<u>18,900,000</u>	<u>2,403,200</u>	<u>(16,496,800)</u>
<b><u>EXPENDITURES</u></b>				
Repairs and maintenance	344,676	344,676	234,888	109,788
Construction management	943,662	943,662	--	943,662
Land and damages	12,219,042	12,216,833	2,911,475	9,305,358
Planning, engineering and design	1,070,060	1,070,060	664,350	405,710
Construction	11,174,042	11,174,042	4,347,041	6,827,001
Debt Service:				
Principal	2,292,506	2,293,854	2,293,854	--
Interest	965,594	966,455	966,455	--
Total Expenditures	<u>29,009,582</u>	<u>29,009,582</u>	<u>11,418,063</u>	<u>17,591,519</u>
Net Change in Fund Balance	<u>\$ (10,109,582)</u>	<u>\$ (10,109,582)</u>	(9,014,863)	<u>\$ 1,094,719</u>
Fund Balance - Beginning of Year			<u>41,783,049</u>	
Fund Balance - End of Year			<u>\$ 32,768,186</u>	

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

Budgetary Comparison Schedule  
Napa Flood Other  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b><u>REVENUES</u></b>				
Revenue from other governments	\$ 100,000	\$ 100,000	\$ 57,981	\$ (42,019)
Revenue from use of money and property	--	--	(217)	(217)
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>57,764</u>	<u>(42,236)</u>
<b><u>EXPENDITURES</u></b>				
Insurance	492	492	492	--
Administration charges	99,434	99,434	57,124	42,310
Management information services	74	74	148	(74)
Total Expenditures	<u>100,000</u>	<u>100,000</u>	<u>57,764</u>	<u>42,236</u>
Net Change in Fund Balance	<u>\$ --</u>	<u>\$ --</u>	--	<u>\$ --</u>
Fund Balances - Beginning of Fiscal Year			<u>--</u>	
Fund Balances - End of Fiscal Year			<u>\$ --</u>	

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

Notes to Required Supplementary Information  
For the Year Ended June 30, 2010

**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, 2010, 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.

## **OTHER REPORTS**



**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, 2010, which collectively comprise the District's financial statements and have issued our report thereon dated November 9, 2010. 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.

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

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

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned to the right of the printed name "GALLINA LLP".

Roseville, California  
November 9, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Napa County Flood Control and Water Conservation District (District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 specific parties.

GALLINA LLP

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned to the right of the printed name "GALLINA LLP".

Roseville, California  
November 9, 2010

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

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
Napa River Flood Control Project	12.106*	--	\$ 7,272,099
ARRA - Napa River Flood Control Project	12.106*	--	<u>23,784,742</u>
Subtotal CFDA 12.106			<u>31,056,841</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 31,056,841</u></u>

\* Major Program

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

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Note 1: **Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Napa County Flood Control and Water Conservation District (the "District"). The District's reporting entity is defined in Note 1 to the basic financial statements. All federal awards received directly from federal agencies as well as any federal awards passed through other government agencies are included in the schedule.

Note 2: **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3: **Relationship to Financial Statements**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards are in-kind expenditures and are not reported within the District's financial statements.

Note 4: **Expenditures Under Napa River Flood Control Project**

Federal expenditures under the Napa River Flood Control Project, funded by the United States Department of Defense, are governed by the Project Cooperation Agreement between the Department of the Army and the District. Pursuant to this agreement, the Army Corps of Engineers provides expenditures for in-kind construction materials and services to build flood control improvements and the District provides the necessary lands, relocations, and disposal areas in order for these improvements to be constructed. The District is required to contribute a minimum of 25 percent, but not to exceed 50 percent, of the total flood project costs. The Army Corps of Engineers updates the project cost annually and can require that costs in past years be adjusted to reflect the minimum cost sharing requirement. Should adjustments be required, the District will treat these as additional or reduced expenditures in the year in which the adjusting payment is made.

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

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Section 1**

Summary of Auditor's Results

Financial Statements

- |  |               |
|--|---------------|
| 1. Type of auditor's report issued:  | Unqualified   |
| 2. Internal control over financial reporting:                                    |               |
| a. Material weaknesses identified?   | No            |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| 3. Noncompliance material to financial statements noted?                         | No            |

Federal Awards

- |   |               |
|---|---------------|
| 1. Internal controls over major program:  |               |
| a. Material weaknesses identified?  | No            |
| b. Significant deficiencies identified not considered to be material weaknesses   | None Reported |
| 2. Type of auditor's report issued on compliance for major program:   | Unqualified   |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | No            |

4. Identification of major program:

CFDA Number

Name of Federal Program

12.106

Napa River Flood Control Project

- |   |            |
|---|------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs.       | \$ 931,705 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No         |

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

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Section 2**

Financial Statement Findings

None Reported

**Section 3**

Federal Award Findings and Questioned Costs

None Reported

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

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
N/A	None reported.

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

Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2010

<u>Audit Reference Number</u>	<u>Status of Prior Year Audit Findings</u>
N/A	None reported