

**LOCAL AGENCY FORMATION  
COMMISSION OF NAPA COUNTY**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2007**

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Audit Report  
For the Year Ended June 30, 2007

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Commission Membership .....  | i           |
| <br><b><u>FINANCIAL SECTION</u></b>  |             |
| Independent Auditor’s Report.....  | 1-2         |
| Management’s Discussion and Analysis .....   | 3-7         |
| Statement of Net Assets and Governmental Fund Balance Sheet .....  | 8           |
| Statement of Activities and Governmental Fund Revenues,<br>Expenditures and Changes in Fund Balance.....   | 9           |
| Notes to Financial Statements.....   | 10-17       |
| <br><b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>   |             |
| Schedule of Revenues, Expenditures and Changes in Fund Balance –<br>Budget and Actual – General Fund.....  | 18          |
| Notes to the Required Supplementary Information .....  | 19          |
| <br><b><u>OTHER REPORT</u></b>   |             |
| Independent Auditor’s Report on Internal Control over Financial<br>Reporting and on Compliance and Other Matters Based on an<br>Audit of Financial Statements Performed in Accordance with<br><i>Government Auditing Standards</i> ..... | 20-21       |

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Commission Membership

For the Year Ended June 30, 2007

| <u>Name</u>      | <u>Position</u>  | <u>Term Expires</u> |
|------------------|--|---------------------|
| Jack Gingles     | Chair<br>City Selection Committee                          | May 2009            |
| Brad Wagenknecht | Vice-Chair<br>County of Napa<br>Board of Supervisors       | May 2008            |
| Bill Dodd        | Member<br>County of Napa<br>Board of Supervisors           | May 2010            |
| Juliana Inman    | Member<br>City Selection Committee                         | May 2011            |
| Brian J. Kelly   | Member<br>Public Member                                    | May 2010            |
| Gregory Rodeno   | Alternate Member<br>Public Member                          | May 2008            |
| Mark Luce        | Alternate Member<br>County of Napa<br>Board of Supervisors | May 2009            |
| Cindy Coffey     | Alternate Member<br>City Selection Committee               | May 2009            |

## **FINANCIAL SECTION**



**BARTIG, BASLER & RAY, LLP**  
A GALLINA LLP COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying basic financial statements of the Local Agency Formation Commission of Napa County as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Local Agency Formation Commission of Napa County 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Agency Formation Commission of Napa County as of June 30, 2007, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2008, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BARTIG, BASLER & RAY, LLP  
A GALLINA LLP Company

A handwritten signature in black ink that reads "Bartig Basler & Ray, LLP". The signature is written in a cursive, flowing style.

February 13, 2008  
Roseville, California

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

The Local Agency Formation Commission (Commission) of Napa County is a state mandated local agency that administers California Government Code Sections 56000 et. seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is responsible for encouraging the logical formation and development of local agencies in a manner that preserves agricultural and open-space lands, promotes the orderly extension of municipal services, and discourages urban sprawl. Key duties include regulating boundary changes through annexations or detachments, approving or disapproving city incorporations; and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies that address a range of governance and service issues for each city and special district within its jurisdiction. As of June 30, 2007, there are currently 23 cities and special districts in Napa County.

The Commission was first established in 1963 as an office within the County of Napa. From 1963 to 2000, 100% of the Commission's budget was funded by the County. On July 1, 2001, in response to changes in state law, the Commission became independent of the County. The Commission adopts an annual budget. Pursuant to Government Code Section 56381, responsibility for funding this budget is divided between six agencies. The County of Napa is responsible for 50% of the budget. The five cities in Napa County are responsible for the remaining 50%; each city pays a share that is determined by a jointly adopted formula.

This narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2007, is offered by the Commission's manager, the Executive Officer, to provide greater context to the audit performed by the Commission's independent auditor, Bartig, Basler, & Ray, LLP. Please read it in conjunction with the Commission's Financial Statements, which follow this section.

### **Overview of the Financial Statements**

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

### **Government-Wide Financial Statements**

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

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

## LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

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

#### **Fund Financial Statements**

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

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

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

#### **Notes to Financial Statements**

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

#### **Required Supplementary Information (RSI)**

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

#### **Government-wide Financial Analysis**

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



**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

**Local Agency Formation Commission  
Net Assets**

|                         | <u>2007</u>       | <u>2006</u>       | <u>Variance</u>  |
|-------------------------|-------------------|-------------------|------------------|
| <b>Assets:</b>          |                   |                   |                  |
| Current Assets          | \$ 224,651        | \$ 187,359        | \$ 37,292        |
| Total Assets            | <u>224,651</u>    | <u>187,359</u>    | <u>37,292</u>    |
| <br><b>Liabilities:</b> |                   |                   |                  |
| Current Liabilities     | 8,311             | 7,597             | 714              |
| Noncurrent Liabilities  | 11,722            | 8,840             | 2,882            |
| Total Liabilities       | <u>20,033</u>     | <u>16,437</u>     | <u>3,596</u>     |
| <br><b>Net Assets:</b>  |                   |                   |                  |
| Unrestricted            | 204,618           | 170,922           | 33,696           |
| Total net assets        | <u>\$ 204,618</u> | <u>\$ 170,922</u> | <u>\$ 33,696</u> |

The law requires the County and the five cities of Napa County to fund the Commission's budget each year. It is the desire of the Commission to minimize this fiscal impact on local agencies as much as possible. At the close of each fiscal year, the Commission determines the amount of its net assets. This portion of total net assets is then returned to the six funding agencies in the form of credits against the subsequent fiscal year's mandatory contribution. The amount returned to each agency is in proportion to the amount each agency contributed to the budget. For the fiscal year ending June 30, 2007, the Commission determined that a total of \$183,338 should be returned to the funding agencies in the form of credits. This amount, which surpasses the prior year's credit of \$145,317, is attributed to the reduction in actual salary expenditures due to the extended vacancy of one of the Commission's two budgeted full time positions.

**Governmental Activities**

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

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

### Local Agency Formation Commission Changes in Net Assets June 30, 2007

|                             | <u>June 30, 2007</u> | <u>June 30, 2006</u> | <u>Variance</u>  | <u>Percentage</u> |
|-----------------------------|----------------------|----------------------|------------------|-------------------|
| <b>Revenues:</b>            |                      |                      |                  |                   |
| Program Revenues            |                      |                      |                  |                   |
| Intergovernmental           | \$ 311,439           | \$ 348,228           | \$ (36,789)      | -10.56%           |
| Planning fees               | 5,600                | 3,750                | 1,850            | 49.33%            |
| Total program revenues      | <u>317,039</u>       | <u>351,978</u>       | <u>(34,939)</u>  | <u>-9.93%</u>     |
| General revenues            |                      |                      |                  |                   |
| Interest                    | 11,984               | 7,477                | 4,507            | 60.28%            |
| Miscellaneous               | 191                  | 4,074                | (3,883)          | -95.31%           |
| Total revenues              | <u>12,175</u>        | <u>11,551</u>        | <u>624</u>       | <u>5.40%</u>      |
| <b>Expenses:</b>            |                      |                      |                  |                   |
| Services and supplies       | <u>295,518</u>       | <u>293,049</u>       | <u>2,469</u>     | <u>0.84%</u>      |
| Total expenditures/expenses | <u>295,518</u>       | <u>293,049</u>       | <u>2,469</u>     | <u>0.84%</u>      |
| Change in net assets        | 33,696               | 70,480               | (36,784)         | 52.19%            |
| Net assets - beginning      | <u>170,922</u>       | <u>100,442</u>       | <u>70,480</u>    | <u>70.17%</u>     |
| Net assets - ending         | <u>\$ 204,618</u>    | <u>\$ 170,922</u>    | <u>\$ 33,696</u> | <u>19.71%</u>     |

### **Financial Analysis of the Commission's Governmental Fund**

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

For the fiscal year ending June 30, 2007, the Commission reported an ending fund balance of \$216,340 for an increase of \$36,578 (or 20.4%) from the prior year. The increase in fund balance is primarily attributed to the reduction in actual salary expenditures due to the extended vacancy of one of the Commission's two budgeted full time positions.

### **Fund Budgetary Highlight**

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

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

## **Capital Assets and Debt Administration**

### **Capital Assets**

No capital investments or divestments occurred during the fiscal year 2006-2007.

### **Debt Administration**

With the close of the fiscal year on June 30, 2007, the Commission did not have any long-term obligations outstanding.

## **Economic Factors and Next Year's Budget**

The Commission is committed to fulfilling its state-mandated mission with as little fiscal impact on local agencies as possible. In preparing the budget for fiscal year 2007-2008, the Commission used a spending baseline to estimate how much it would cost to continue the level of its activities and services at next year's price for labor and supplies. The Commission's adopted fiscal year 2007-2008 Budget is \$466,671, an overall percentage increase of 2.2. The primary factor for the increase is attributed to LAFCO's group insurance, which represents employee healthcare costs, LAFCO's group insurance for 2007-2008 is budgeted to rise by approximately 20 percent, or \$7,138.

## **Requests for Information**

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

Local Agency Formation Commission of Napa County  
1700 Second Street, Suite 268  
Napa, California, 94559

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Statement of Net Assets and  
Governmental Fund Balance Sheet  
June 30, 2007

| <u>ASSETS</u>                           | <u>General<br/>Fund</u>  | <u>Adjustments<br/>(See Notes)</u> | <u>Statement<br/>of Net Assets</u> |
|---|--------------------------|------------------------------------|------------------------------------|
| Cash in County Treasury                 | \$ 224,551               | \$ --                              | \$ 224,551                         |
| Imprest cash                            | <u>100</u>               | <u>--</u>                          | <u>100</u>                         |
| Total Assets                            | <u><u>\$ 224,651</u></u> | <u><u>\$ --</u></u>                | <u><u>\$ 224,651</u></u>           |
| <br><u>LIABILITIES</u>                  |                          |                                    |                                    |
| Accounts payable                        | \$ 612                   | \$ --                              | \$ 612                             |
| Accrued salaries payable                | 7,699                    | --                                 | 7,699                              |
| Long-term liabilities:                  |                          |                                    |                                    |
| Portion due or payable within one year: |                          |                                    |                                    |
| Compensated absences                    | --                       | 3,100                              | 3,100                              |
| Portion due or payable after one year:  |                          |                                    |                                    |
| Compensated absences                    | <u>--</u>                | <u>8,622</u>                       | <u>8,622</u>                       |
| Total Liabilities                       | <u>8,311</u>             | <u>11,722</u>                      | <u>20,033</u>                      |
| <br><u>FUND BALANCES/NET ASSETS</u>     |                          |                                    |                                    |
| Fund Balances:                          |                          |                                    |                                    |
| Reserved for imprest cash               | 100                      | (100)                              | --                                 |
| Unreserved:                             |                          |                                    |                                    |
| Designated                              | 86,978                   | (86,978)                           | --                                 |
| Undesignated                            | <u>129,262</u>           | <u>(129,262)</u>                   | <u>--</u>                          |
| Total Fund Balances                     | <u>216,340</u>           | <u>(216,340)</u>                   | <u>--</u>                          |
| Total Liabilities and Fund Balances     | <u><u>\$ 224,651</u></u> |                                    |                                    |
| Net Assets:                             |                          |                                    |                                    |
| Unrestricted                            |                          | <u>204,618</u>                     | <u>204,618</u>                     |
| Total Net Assets                        |                          | <u>204,618</u>                     | <u>204,618</u>                     |
| Total Liabilities and Net Assets        |                          | <u><u>\$ --</u></u>                | <u><u>\$ 224,651</u></u>           |

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

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Statement of Activities and  
Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended June 30, 2007

|  | General<br>Fund | Adjustments<br>(See Notes) | Statement<br>of Activities |
|--|-----------------|----------------------------|----------------------------|
| <u>EXPENDITURES/EXPENSES</u>                                 |                 |                            |                            |
| Salaries and benefits  | \$ 197,445      | \$ 2,882                   | \$ 200,327                 |
| Services and supplies  | 95,191          | --                         | 95,191                     |
| Total Expenditures/Expenses                                  | 292,636         | 2,882                      | 295,518                    |
| <u>PROGRAM REVENUES</u>                                      |                 |                            |                            |
| Intergovernmental revenues:                                  |                 |                            |                            |
| County of Napa   | 155,720         | --                         | 155,720                    |
| City of Napa   | 106,679         | --                         | 106,679                    |
| St. Helena   | 12,095          | --                         | 12,095                     |
| American Canyon  | 20,542          | --                         | 20,542                     |
| Calistoga  | 9,243           | --                         | 9,243                      |
| Yountville   | 7,160           | --                         | 7,160                      |
| Planning fees  | 5,600           | --                         | 5,600                      |
| Total Program Revenues                                       | 317,039         | --                         | 317,039                    |
| Net Program Revenue  |                 |                            | 21,521                     |
| <u>GENERAL REVENUES</u>                                      |                 |                            |                            |
| Interest income  | 11,984          | --                         | 11,984                     |
| Miscellaneous  | 191             | --                         | 191                        |
| Total General Revenues                                       | 12,175          | --                         | 12,175                     |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | 36,578          | (36,578)                   | --                         |
| Change in Net Assets   | --              | 33,696                     | 33,696                     |
| Fund Balance/Net Assets - Beginning of Year                  | 179,762         | --                         | 170,922                    |
| Fund Balance/Net Assets - End of Year                        | \$ 216,340      | \$ --                      | \$ 204,618                 |

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

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Local Agency Formation Commission of Napa County (Commission) was created in 1963 by the California Legislature to encourage the orderly formation and development of local agencies, promote the efficient extension of municipal services, and protect against the premature conversion of agricultural and open-space lands. In 2001, following the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became an independent agency separate from the County of Napa. As of June 30, 2007, there are currently 23 cities and special districts under the jurisdiction of the Commission in Napa County.

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

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

The Commission includes all activities (operations of its administrative staff and commission officers) considered to be a part of the Commission. The Commission reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the Commission is financially accountable for other entities. The Commission has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the Commission is not aware of any entity that would be financially accountable for the Commission that would result in the Commission being considered a component unit of that entity.

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements  
June 30, 2007

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

## B. **Basis of Presentation and Accounting**

In this report, the government-wide statements and the fund statements for the Commission are presented on the same page with the adjustments column showing the differences.

### *Government-Wide Statements*

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes and grants. Revenues from sales tax are recognized when the underlining transactions take place. Revenues from grants are recognized in the fiscal year in which all eligible requirements have been satisfied.

When both restricted and unrestricted net assets are available, restricted resources are used for non-restricted purposes only after the unrestricted resources are depleted.

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Notes to Financial Statements  
June 30, 2007

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

**D. Compensated Absences**

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

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

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

**E. Use of Estimates**

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

Note 2: **Cash**

Cash at June 30, 2007 consisted of the following:

|                         |                   |
|-------------------------|-------------------|
| Cash in County Treasury | <u>\$ 224,651</u> |
|-------------------------|-------------------|

The Commission maintains all of its cash and investments with the Napa County Treasurer in an investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Napa's financial statements may be obtained by contacting the County of Napa's Auditor-Controller's office at 1195 Third Street, Room B-10, Napa, California 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.



# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements  
June 30, 2007

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

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

*Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available (“susceptible to accrual”). Taxes, interest, certain state and federal grants, and charges for services revenues are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

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

**C. Capital Assets**

Capital assets (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 data contributed. The Commission defines capital assets as assets with an initial, individual cost of more than \$5,000 for equipment and 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) under 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 50 years |

# LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements  
June 30, 2007

Note 4: **Reconciliation of Fund and Government-Wide Financial Statements** (continued)

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities on page 9 of this report.**

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

Changes in compensated absences payable reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

\$ 2,882

Note 5: **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.

- *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.
- *Unrestricted Net Assets* – This category represents net assets of the Commission, not restricted for any project or other purpose.

## **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. The Commission's management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans.

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Notes to Financial Statements  
June 30, 2007

Note 2: **Cash** (continued)

Required disclosures for the Commission's deposit and investment risks at June 30, 2007, were as follows:

|                              |                |
|------------------------------|----------------|
| Credit risk                  | Not rated      |
| Custodial risk               | Not applicable |
| Concentration of credit risk | Not applicable |
| Interest rate risk           | 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.

Note 3: **Long-Term Liabilities**

The following is a summary of long-term liability activity of the Commission for the year ended June 30, 2007:

|                      | <u>July 1, 2006</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2007</u> | <u>Amount Due Within One Year</u> |
|----------------------|---------------------|------------------|--------------------|----------------------|-----------------------------------|
| Compensated absences | \$ <u>8,840</u>     | \$ <u>5,982</u>  | \$ <u>(3,100)</u>  | \$ <u>11,722</u>     | \$ <u>3,100</u>                   |

Note 4: **Reconciliation of Fund and Government-Wide Financial Statements**

A. **Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets on page 8 of this report.**

Amount reported for governmental activities in the statement of net assets are different because:

Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds \$ 11,722

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Notes to Financial Statements  
June 30, 2007

Note 5: **Net Assets/Fund Balance** (continued)

**Fund Balances** (continued)

As of June 30, 2007, the Commission has “reserved” fund balances as follows:

- *Reserve for Encumbrances* was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Commission but not yet completed as of the close of the year.
- *Reserve for Imprest Cash* was created to represent the portion of the fund balance that is not available for expenditure because the Commission maintains various levels of revolving funds for daily operations.

*Designations of Unreserved Fund Balance* is 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 Commission.

The Commission has designated fund balance as follows:

|                       |                  |
|-----------------------|------------------|
| Professional services | \$ 50,000        |
| Operating reserve     | <u>36,978</u>    |
| Total                 | <u>\$ 86,978</u> |

Note 6: **Related Party Transactions**

During the fiscal year ended June 30, 2007, the Commission paid the County of Napa, a related party, \$43,800 for legal, personnel, and other support services.

In addition, the Commission received \$155,720 during the fiscal year ended June 30, 2007 from the County of Napa, a related party, pursuant to Government Code Section 56381. The County provides half of the intergovernmental revenue to the Commission. The other half is funded by City of Napa, City of St. Helena, City of American Canyon, City of Calistoga and Town of Yountville.

Due to the fluctuations of revenue from applicant’s proposals, the Commission’s practice is to return excess revenues to the County and Cities in the form of a credit towards the subsequent fiscal year Local Agency Formation Commission funding allocation.

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Notes to Financial Statements  
June 30, 2007

Note 7: **Operating Lease**

The Commission is committed under various noncancelable operating leases for buildings and photocopy machines. The minimum future lease commitments on these leases are as follows:

| <u>Fiscal Year<br/>Ending<br/>June 30,</u> | <u>Amount</u>    |
|--|------------------|
| 2008                                       | \$ 30,739        |
| 2009                                       | 30,739           |
| 2010                                       | <u>934</u>       |
| Total                                      | <u>\$ 62,412</u> |

Rent expenditures were \$27,000 for the year ended June 30, 2007.

Note 8: **Risk Management**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY**

Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual - General Fund  
For the Year Ended June 30, 2007

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance with<br/>Final Budget</u> |
|--|----------------------------|-------------------------|-------------------|---------------------------------------|
| <u>REVENUES</u>  |                            |                         |                   |                                       |
| Intergovernmental revenues                                   | \$ 348,228                 | \$ 348,228              | \$ 311,439        | \$ (36,789)                           |
| Interest income  | 5,000                      | 5,000                   | 11,984            | 6,984                                 |
| Planning fees  | --                         | --                      | 5,600             | 5,600                                 |
| Miscellaneous  | --                         | --                      | 191               | 191                                   |
|  | <u>353,228</u>             | <u>353,228</u>          | <u>329,214</u>    | <u>(24,014)</u>                       |
| <u>EXPENDITURES</u>  |                            |                         |                   |                                       |
| Salaries and benefits  | 268,688                    | 268,688                 | 197,445           | 71,243                                |
| Services and supplies  | 101,091                    | 101,091                 | 95,191            | 5,900                                 |
|  | <u>369,779</u>             | <u>369,779</u>          | <u>292,636</u>    | <u>77,143</u>                         |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>\$ (16,551)</u>         | <u>\$ (16,551)</u>      | 36,578            | <u>\$ 53,129</u>                      |
| Fund Balance - Beginning of Year                             |                            |                         | <u>179,762</u>    |                                       |
| Fund Balance - End of Year                                   |                            |                         | <u>\$ 216,340</u> |                                       |

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

## LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2007

### **BUDGET AND BUDGETARY REPORTING**

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

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

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

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



## **OTHER REPORT**



BARTIG, BASLER & RAY, LLP

A GALLINA LLP COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the Local Agency Formation Commission of Napa County as of and for the year ended June 30, 2007, and have issued our report thereon dated February 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Local Agency Formation Commission of Napa County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Local Agency Formation Commission of Napa County's internal control over financial reporting.

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Local Agency Formation Commission of Napa County'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 of the Local Agency Formation Commission, management and the six agencies that fund LAFCO and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, LLP  
A GALLINA LLP Company



February 13, 2008  
Roseville, California