



Local Agency Formation Commission
LAFCO of Napa County

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February 1, 2010
Agenda Item No. 7c (Action)

January 25, 2010

TO: Local Agency Formation Commission

FROM: Keene Simonds, Executive Officer

SUBJECT: Financial Audit for Fiscal Year Ending June 30, 2009

The Commission will review a written report from an outside consultant auditing the agency's financial statements for the 2008-2009 fiscal year. The report is being presented to the Commission to receive and file.

It is the practice of the Local Agency Formation Commission of Napa County ("Commission") to retain an outside consultant to perform an audit on the agency's financial statements for each fiscal year completed. The purpose of the audit is for a third-party to assess the reliability of the financial statements by reviewing records and testing transactions to determine their compliance with generally accepted governmental accounting standards. The audit also provides an opportunity for the third-party to identify reporting errors and omissions as well as to make suggestions for improvements.

A. Discussion

In July 2009, the Commission authorized the Executive Officer to retain Galina, LLP to conduct an independent audit of the agency's financial statements for the 2008-2009 fiscal year. Galina completed its audit in December 2009 and found no material misstatements. The audit also found no instances of significant or unusual changes in reporting practices and does not include any suggestions for improvements. A copy of Galina's audit with an accompanying cover letter addressed to the Commission is attached.

B. Analysis

Galina's audit provides an unqualified opinion the Commission's financial statements for the 2008-2009 fiscal year are reliable representations of the agency's financial position as of June 30, 2009. This clean opinion indicates the Commission maintains an effective level of internal control in managing its financial records and transactions which helps to ensure maximum accountability with respect to the agency's use of public funds.

Juliana Inman, Chair
Councilmember, City of Napa

Lewis Chilton, Commissioner
Councilmember, Town of Yountville

Joan Bennett, Alternate Commissioner
Councilmember, City of American Canyon

Bill Dodd, Vice Chair
County of Napa Supervisor, 4th District

Brad Wagenknecht, Commissioner
County of Napa Supervisor, 1st District

Mark Luce, Alternate Commissioner
County of Napa Supervisor, 2nd District

Brian J. Kelly, Commissioner
Representative of the General Public

Gregory Rodeno, Alternate Commissioner
Representative of the General Public

Keene Simonds
Executive Officer

C. Recommendation

It is recommended the Commission take the following action:

- 1) Receive and file the attached “Audit Report for the Year Ending on June 30, 2009” prepared by BBR.

Respectfully submitted,

Keene Simonds
Executive Officer

Attachments:

- 1) 2008-2009 Audit Report, Prepared by Galina, LLP
- 2) LAFCO Financial Summary Chart, Prepared by Auditor’s Office



GALLINA_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 2009

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

We have audited the financial statements of the governmental activities of the Local Agency Formation Commission of Napa County (Commission), for the year ended June 30, 2009, and have issued our report thereon dated October 13, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 14, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant

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

accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no sensitive estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements discovered as part of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2009.

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

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management and the six agencies that fund the Local Agency Formation Commission of Napa County and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
October 13, 2009

**LOCAL AGENCY FORMATION
COMMISSION OF NAPA COUNTY**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2009**

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Audit Report
For the Year Ended June 30, 2009

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LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Commission Membership

For the Year Ended June 30, 2009

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Brad Wagenknecht	Member Napa County Board of Supervisors	May 2012
Brian J. Kelly	Chair Public Member	May 2010
Bill Dodd	Member Napa County Board of Supervisors	May 2010
Juliana Inman	Vice-Chair City Selection Committee	May 2011
Gregory Rodeno	Alternate Member Public Member	May 2012
Mark Luce	Alternate Member Napa County Board of Supervisors	May 2013
Lewis Chilton	Member City Selection Committee	May 2013
Joan Bennett	Alternate Member City Selection Committee	May 2013

FINANCIAL SECTION



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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 (Commission), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2009, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, 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.

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

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.



Roseville, California
October 13, 2009

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009

The Local Agency Formation Commission of Napa County ("Commission") administers a section of California Government Code now known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is delegated regulatory and planning responsibilities to coordinate the logical formation and development of local agencies in a manner that preserves agricultural and open-space resources, promotes the orderly extension of municipal services, and discourages urban sprawl. Key duties include regulating boundary changes through annexations or detachments, approving city incorporations or disincorporations, and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies to inform its regulatory activities, including establishing and updating spheres of influence for all cities and special districts within its jurisdiction. Spheres are planning tools used by the Commission to designate the territory it believes represents the appropriate and probable future service area of the affected agency. All jurisdictional changes, such as annexations, must be consistent with the spheres of the affected agencies with limited exceptions. As of June 30, 2009, there are currently 23 cities and special districts subject to Commission jurisdiction in Napa County.

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

This narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2009, is offered by the Commission's manager, the Executive Officer, to provide greater context to the audit performed by the Commission's independent auditor, GALLINA LLP. Please read it in conjunction with the Commission's Financial Statements, which follow this section.

Overview of the Financial Statements

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2009

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*.

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.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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 Net Assets

	2009	2008	Variance
Assets:			
Current Assets	\$ 260,173	\$ 229,756	\$ 30,417
Total Assets	260,173	229,756	30,417
Liabilities:			
Current Liabilities	29,576	10,656	18,920
Noncurrent Liabilities	24,366	14,414	9,952
Total Liabilities	53,942	25,070	28,872
Net Assets:			
Invested in Capital Assets, net	19,657	--	19,657
Unrestricted	186,574	204,686	(18,112)
Total net assets	\$ 206,231	\$ 204,686	\$ 1,545

The law requires the County and the five cities of Napa County fund the Commission's budget each year. It is the desire of the Commission to minimize the fiscal impact on local agencies as much as possible. At the close of each fiscal year, the Commission determines the amount of its unexpended monies. 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, 2009, the Commission determined \$189,029 should be returned to the funding agencies in the form of credits. The \$189,029, which surpasses the prior year's credit of \$144,402, 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, 2009

Local Agency Formation Commission Changes in Net Assets

	2009	2008	Variance	Percentage
Revenues:				
Program Revenues				
Intergovernmental	\$ 352,765	\$ 272,031	\$ 80,734	29.68%
Planning fees	16,275	4,550	11,725	257.69%
Total program revenues	<u>369,040</u>	<u>276,581</u>	<u>92,459</u>	33.43%
General revenues				
Interest	10,459	12,746	(2,287)	-17.94%
Miscellaneous	--	14	(14)	-100.00%
Total revenues	<u>10,459</u>	<u>12,760</u>	<u>(2,301)</u>	-18.03%
Expenses:				
Salaries and benefits	253,978	177,480	76,498	43.10%
Services and supplies	123,976	111,793	12,183	10.90%
Total expenses	<u>377,954</u>	<u>289,273</u>	<u>88,681</u>	30.66%
Change in net assets	1,545	68	1,477	2172.06%
Net assets - beginning	204,686	204,618	68	0.03%
Net assets - ending	<u>\$ 206,231</u>	<u>\$ 204,686</u>	<u>\$ 1,545</u>	0.75%

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, 2009, the Commission reported an ending fund balance of \$211,870 for a decrease of \$10,189, or 4.6%, from the prior year. This decrease in fund balance was a budgeted decrease to use prior year's surplus of funds for the current year.

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

Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2009

<u>ASSETS</u>	<u>General Fund</u>	<u>Adjustments (See Notes)</u>	<u>Statement of Net Assets</u>
Cash in County treasury	\$ 240,416	\$ --	\$ 240,416
Imprest cash	100	--	100
Capital assets, net	--	19,657	19,657
Total Assets	<u>\$ 240,516</u>	<u>\$ 19,657</u>	<u>\$ 260,173</u>
 <u>LIABILITIES</u>			
Accounts payable	\$ 18,445	\$ --	\$ 18,445
Accrued salaries payable	10,201	--	10,201
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	--	930	930
Portion due or payable after one year:			
Compensated absences	--	24,366	24,366
Total Liabilities	<u>28,646</u>	<u>25,296</u>	<u>53,942</u>
 <u>FUND BALANCES/NET ASSETS</u>			
Fund Balances:			
Reserved for imprest cash	100	(100)	--
Unreserved:			
Designated	90,594	(90,594)	--
Undesignated	121,176	(121,176)	--
Total Fund Balances	<u>211,870</u>	<u>(211,870)</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 240,516</u>		
Net Assets:			
Invested in capital assets, net of related debt		19,657	19,657
Unrestricted		186,574	186,574
Total Net Assets		<u>\$ 206,231</u>	<u>\$ 206,231</u>

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

Capital Assets and Debt Administration

Capital Assets

During fiscal year 2008-2009, the Commission purchased an electronic document management system with a cost of \$19,657.

Debt Administration

With the close of the fiscal year on June 30, 2009, the Commission did not have any long-term obligations outstanding, except for compensated absences totaling \$24,366

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 2009-2010 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 2009-2010 Budget is \$496,961, an overall percentage decrease of 10%. The primary factor for the decrease is attributed to the decision not to fund any substantive special departmental expenses. This contrasts with the prior fiscal year in which \$55,000 was budgeted to develop a new website and implement an electronic document management system. Other key factors contributing to the decrease includes budgeted reductions in legal service and retirement expenses.

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, Napa County provides certain management and administrative functions, including financial management and accounting. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

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, 2009

	<u>General Fund</u>	<u>Adjustments (See Notes)</u>	<u>Statement of Activities</u>
<u>EXPENDITURES/EXPENSES</u>			
Salaries and benefits	\$ 246,055	\$ 7,923	\$ 253,978
Services and supplies	143,633	(19,657)	123,976
Total Expenditures/Expenses	<u>389,688</u>	<u>(11,734)</u>	<u>377,954</u>
 <u>PROGRAM REVENUES</u>			
Intergovernmental revenues:			
County of Napa	176,383	--	176,383
City of Napa	119,820	--	119,820
St. Helena	12,134	--	12,134
American Canyon	27,180	--	27,180
Calistoga	9,714	--	9,714
Yountville	7,534	--	7,534
Planning fees	16,275	--	16,275
Total Program Revenues	<u>369,040</u>	<u>--</u>	<u>369,040</u>
Net Program Expense			<u>(8,914)</u>
 <u>GENERAL REVENUES</u>			
Interest income	10,459	--	10,459
Total General Revenues	<u>10,459</u>	<u>--</u>	<u>10,459</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,189)	10,189	--
Change in Net Assets	--	1,545	1,545
Fund Balance/Net Assets - Beginning of Year	<u>222,059</u>	<u>--</u>	<u>204,686</u>
Fund Balance/Net Assets - End of Year	<u>\$ 211,870</u>	<u>\$ --</u>	<u>\$ 206,231</u>

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2009

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

A. **Reporting Entity**

The Local Agency Formation Commission of Napa County (Commission) was created in 1963 by the California Legislature to encourage the orderly formation and development of local agencies, promote the efficient extension of municipal services, and protect against the premature conversion of agricultural and open-space lands. In 2001, following the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became an independent agency separate from Napa County. As of June 30, 2009, 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 Napa County. These members are Board of Supervisors. Appointments are made by the Board of Supervisors.
- **City Members:** Two regular and one alternate member represent the five cities in Napa County. The members are mayors or council members. Appointments are made by the City Selection Committee.
- **Public Members:** One regular and one alternate member represent the general public. Appointments are made by the county and city members on the Commission.

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2009

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.

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2009

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

B. Basis of Presentation and Accounting (continued)

Fund Financial Statements (continued)

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. Compensated Absences

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

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

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.

D. Capital Assets

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2009

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

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, 2009 consisted of the following:

Cash in County treasury	<u>\$ 240,416</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. Napa County's financial statements may be obtained by contacting Napa County's Auditor-Controller's office at 1195 Third Street, Room B-10, Napa, California 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Required disclosures for the Commission's deposit and investment risks at June 30, 2009, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2009

Note 3: **Capital Assets**

Changes in capital assets during the year ended June 30, 2009 were as follows:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Capital assets, being depreciated:				
Equipment	\$ --	\$ 19,657	\$ --	\$ 19,657
Total capital assets, being depreciated	--	19,657	--	19,657
Less accumulated depreciation for:				
Equipment	--	--	--	--
Total accumulated depreciation	--	--	--	--
Total capital assets, being depreciated, net	--	19,657	--	19,657
Capital assets, net	\$ --	\$ 19,657	\$ --	\$ 19,657

Note 4: **Long-Term Liabilities**

The following is a summary of long-term liability activity of the Commission for the year ended June 30, 2009:

	July 1, 2008	Additions	Retirements	June 30, 2009	Amount Due Within One Year
Compensated absences	\$ 17,373	\$ 8,853	\$ (930)	\$ 25,296	\$ 930

Note 5: **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:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 19,657
Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(25,296)</u>
	<u>\$ (5,639)</u>

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements

June 30, 2009

Note 5: Reconciliation of Fund and Government-Wide Financial Statements (continued)

B. Explanation of Certain Differences Between the Governmental Fund Revenues, Expenditures and Changes in Fund Balance Sheet and the Government-Wide Statement of Net Assets on page 9 of this report.

Amount reported for governmental activities in the statement of net assets 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. \$ (7,923)

Governmental funds report capital outlay 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. 19,657

\$ 11,734

Note 6: Net Assets/Fund Balance

Net Assets

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

Fund Balance

Equity is classified as fund balance in the fund statements. 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, 2009

Note 8: **Operating Lease**

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	3,739
2011	3,739
2012	<u>935</u>
Total	<u>\$ 8,413</u>

Rent expenditures were \$27,000 for the year ended June 30, 2009.

Note 9: **Risk Management**

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

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual - General Fund
 For the Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 375,766	\$ 375,766	\$ 352,765	\$ (23,001)
Interest income	10,000	10,000	10,459	459
Planning fees	--	--	16,275	16,275
Total Revenues	<u>385,766</u>	<u>385,766</u>	<u>379,499</u>	<u>(6,267)</u>
<u>EXPENDITURES</u>				
Salaries and benefits	294,325	294,325	246,055	48,270
Services and supplies	167,191	167,191	143,633	23,558
Contingency	90,594	90,594	--	90,594
Total Expenditures	<u>552,110</u>	<u>552,110</u>	<u>389,688</u>	<u>162,422</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (166,344)</u>	<u>\$ (166,344)</u>	(10,189)	<u>\$ 156,155</u>
Fund Balance - Beginning of Year			<u>222,059</u>	
Fund Balance - End of Year			<u>\$ 211,870</u>	

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to the Required Supplementary Information
For the Year Ended June 30, 2009

BUDGET AND BUDGETARY REPORTING

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

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

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

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

OTHER REPORT



GALLINA_{LLP}

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, 2009, and have issued our report thereon dated October 13, 2009. 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.



Roseville, California
October 13, 2009

LAFCO Financial Summary
For the Past 8 Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues	\$ 371,817	\$ 273,774	\$ 330,510	\$ 331,580	\$ 363,529	\$ 329,214	\$ 289,341	\$ 379,499
Expenses	220,378	261,803	342,558	366,056	300,653	292,636	283,622	389,688
Surplus/Deficit	\$ 151,439	\$ 11,971	\$ (12,048)	\$ (34,476)	\$ 62,876	\$ 36,578	\$ 5,719	\$ (10,189)
Fund Balance:								
Beginning Fund Balance	\$ -	\$ 151,439	\$ 163,410	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059
Surplus/Deficit 6/30	151,439	11,971	(12,048)	(34,476)	62,876	36,578	5,719	(10,189)
Ending Fund Balance	\$ 151,439	\$ 163,410	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059	\$ 211,870
Breakdown of Fund Balance:								
Professional Services	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Operating Reserve	22,462	22,462	22,462	11,983	35,174	36,978	37,879	40,594
Future Projects	-	-	-	-	-	-	-	-
Reserve for Encumbrances	-	-	4,000	4,803	-	-	-	-
Available Fund Balance	28,977	40,948	24,900	100	94,423	129,362	79,180	121,276
Total Fund Balance	\$ 151,439	\$ 163,410	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059	\$ 211,870

