

**LOCAL AGENCY FORMATION
COMMISSION OF NAPA COUNTY**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2005**

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Audit Report
For the Year Ended June 30, 2005

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LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Commission Membership as of June 30, 2005

<u>Name</u>	<u>Position</u>	<u>Original Appt.</u>	<u>Term Expires</u>
Brian Kelly	Alternate Member Public Member	June 2005	May 2008
Guy Kay	Member Public Member	May 1994	May 2006
Dr. Andrew Alexander	Member City of Calistoga City Council	May 2005	May 2009
Brad Wagenknecht	Member County of Napa Board of Supervisors	January 2003	May 2008
Lori Luporini	Chair City of American Canyon City Council	June 2004	May 2007
Bill Dodd	Vice-Chair County of Napa Board of Supervisors	January 2005	May 2006
Harold Moskowitz	Alternate Member County of Napa Board of Supervisors	January 2005	May 2005
Kevin Block	Alternate Member City of Napa City Council	May 2005	May 2009

FINANCIAL SECTION

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

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, 2005, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2005, 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 the Governmental Accounting Standards Board. 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 September 1, 2005, 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. 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, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

September 1, 2005
Roseville, California

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

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. This Act charges the Commission with the responsibility to encourage the logical formation and development of local agencies in a manner that preserves agricultural lands and discourages urban sprawl. The Commission reviews proposals for changes of organization of local governments in Napa County. Such changes include annexations and detachments to cities and special districts, the formation of new government districts, and the incorporation of cities. The Commission also studies the provision of municipal services to the people of Napa County, and has several tools at its disposal to assist local agencies in determining appropriate service areas and boundaries.

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, 2005 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, CPAs, Inc. 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, 2005

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 appropriated budget for its general fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

Notes to the 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

This is the second year that 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, 2005

Local Agency Formation Commission of Napa County Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$ 133,061	\$ 158,081
Capital Assets, net of accumulated depreciation	100	8,203
Total Assets	<u>133,161</u>	<u>166,284</u>
Liabilities:		
Current Liabilities	19,753	9,892
Non Current Liabilities	12,966	8,153
Total Liabilities	<u>32,719</u>	<u>18,045</u>
Net Assets:		
Invested in capital assets, net of related debt	--	8,203
Unrestricted	100,442	140,036
Total net assets	<u>\$ 100,442</u>	<u>\$ 148,239</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 unencumbered fund balance. 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, 2005, the Commission determined that \$88,686 should be returned to the funding agencies in the form of credits.

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, 2005

Local Agency Formation Commission of Napa County Changes in Net Assets June 30, 2005

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Dollar Change</u>	<u>Percentage</u>
Revenues:				
Program Revenues				
Intergovernmental	\$ 315,729	\$ 314,605	\$ 1,124	0%
Planning fees	6,750	8,000	(1,250)	-16%
Total program revenues	<u>322,479</u>	<u>322,605</u>	<u>(126)</u>	<u>0%</u>
General revenues				
Interest	4,511	4,813	(302)	-6%
Miscellaneous	4,590	3,092	1,498	48%
Total revenues	<u>331,580</u>	<u>330,510</u>	<u>1,070</u>	<u>0%</u>
Expenses:				
Salaries and benefits	253,913	212,504	41,409	19%
Services and supplies	124,814	133,918	(9,104)	-7%
Depreciation expense	650	2,715	(2,065)	-76%
Total expenditures/expenses	<u>379,377</u>	<u>349,137</u>	<u>30,240</u>	<u>9%</u>
Change in net assets	(47,797)	(18,627)	(29,170)	157%
Net assets - beginning	148,239	166,866	(18,627)	-11%
Net assets - ending	<u>\$ 100,442</u>	<u>\$ 148,239</u>	<u>\$ (47,797)</u>	<u>-32%</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, 2005, the Commission reported an ending fund balance of \$100,442 a decrease of \$47,797 (or 32%) from the prior year. Increased costs in salaries and benefits relating to an employee reclassification and promotion, as well as contractually obligated cost-of-living adjustments, account for most of this variance. Unencumbered expense appropriations in the prior fiscal year also explain the decrease in the fund balance. Divestment of the Commission's one depreciable asset, a copy machine, produced a substantial change in depreciation expense.

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. Management was able 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, 2005

Capital Assets and Debt Administration

Capital Assets

The Commission divested itself of one capital asset, a copying machine, in October of 2005, and has no capital assets at the time of the writing of this report.

Debt Administration

With the close of the fiscal year on June 30, 2005, 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 2005-2006, the Commission sought to control administrative costs and reduce its overall budget. The Commission's fiscal year 2005-2006 Budget is \$436,914, an overall decrease of \$8,010 from the prior year. The budget for salaries and benefits increased by 2.7% due to a reclassification of one staff member and increases required by labor contracts. The Commission offset this increase by reducing its professional services account from \$100,000 to \$50,000.

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, 2005

<u>ASSETS</u>	<u>General Fund</u>	<u>Adjustments (Note 5)</u>	<u>Statement of Net Assets</u>
Cash in County Treasury	\$ 133,061	\$ --	\$ 133,061
Imprest cash	<u>100</u>	<u>--</u>	<u>100</u>
Total Assets	<u>\$ 133,161</u>	<u>\$ --</u>	<u>\$ 133,161</u>
 <u>LIABILITIES</u>			
Accounts payable	\$ 6,064	\$ --	\$ 6,064
Accrued salaries payable	10,211	--	10,211
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	--	3,478	3,478
Portion due or payable after one year:			
Compensated absences	<u>--</u>	<u>12,966</u>	<u>12,966</u>
Total Liabilities	<u>16,275</u>	<u>16,444</u>	<u>32,719</u>
 <u>FUND BALANCES/NET ASSETS</u>			
Fund Balances:			
Reserved for encumbrances	4,803	(4,803)	--
Reserved for imprest cash	100	(100)	--
Unreserved:			
Designated	<u>111,983</u>	<u>(111,983)</u>	<u>--</u>
Total Fund Balances	<u>116,886</u>	<u>(116,886)</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 133,161</u>		
Net Assets:			
Unrestricted		<u>100,442</u>	<u>100,442</u>
Total Net Assets		<u>100,442</u>	<u>100,442</u>
Total Liabilities and Net Assets		<u>\$ --</u>	<u>\$ 133,161</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, 2005

	General Fund	Adjustments (Note 5)	Statement of Activities
<u>EXPENDITURES/EXPENSES</u>			
Salaries and benefits	\$ 248,795	\$ 5,118	\$ 253,913
Services and supplies	117,261	7,553	124,814
Depreciation expense	--	650	650
Total Expenditures/Expenses	366,056	13,321	379,377
<u>PROGRAM REVENUES</u>			
Intergovernmental revenues:			
County of Napa	157,864	--	157,864
City of Napa	109,567	--	109,567
St. Helena	11,976	--	11,976
American Canyon	18,624	--	18,624
Calistoga	10,365	--	10,365
Yountville	7,333	--	7,333
LAFCO planning fees	6,750	--	6,750
Total Program Revenues	322,479	--	322,479
Net Program Expense			56,898
<u>GENERAL REVENUES</u>			
Interest income	4,511	--	4,511
Miscellaneous	4,590	--	4,590
Total General Revenues	9,101	--	9,101
Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,476)	34,476	--
Change in Net Assets	--	(47,797)	(47,797)
Fund Balance/Net Assets - Beginning of Year	151,362	--	148,239
Fund Balance/Net Assets - End of Year	\$ 116,886	\$ --	\$ 100,442

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

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2005

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Local Agency Formation Commission of Napa County (Commission) was created by California bill AB 2838. This legislation, titled the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, marked significant reform to local government reorganization law. From 1963 to 2000, various statutes concerning local government reorganization allowed local agency formation commissions in each county to function either as independent agencies or as part of the county government. In Napa County, the local agency formation commission was part of the county government during this period. The Commission's role is to ensure the orderly formation of local government agencies, to preserve agricultural and open space lands, and to discourage urban sprawl. The Commission has jurisdiction over the County of Napa, the Cities of American Canyon, Calistoga, Napa, St. Helena and Yountville and 17 special districts located within the boundaries of Napa County.

The Commission is composed of five members and three alternates who represent the following interests:

- Two members and one alternate selected from the Napa County Board of Supervisors
- Two members and one alternate from the City Councils selected by the City Selection Committee from the Cities of American Canyon, Calistoga, Napa, St. Helena and Yountville
- One member and one alternate of the general public who are selected by the County and City members listed above

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, 2005

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

B. Basic 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 instead 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, 2005

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

B. Basic 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 Commission reports the following major governmental fund:

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

C. Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of accounts groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

D. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. 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, 2005

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

E. 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>Years of Continuous County 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 through 20	400 maximum hours
Years 21 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.

F. 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, 2005 consisted of the following:

Cash in County Treasury	<u>\$ 133,061</u>
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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, CA 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, 2005

Note 2: **Cash** (continued)

Government Accounting Standards Board Statement No. 40, effective for fiscal years ending June 30, 2005, requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Commission has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the Commission's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
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: **Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and improvements	\$ 5,840	\$ --	\$ 5,840	\$ --
Equipment and vehicles	<u>7,793</u>	<u>--</u>	<u>7,793</u>	<u>--</u>
Total Capital Assets, Being Depreciated	<u>13,633</u>	<u>--</u>	<u>13,633</u>	<u>--</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(234)	--	(234)	--
Equipment and vehicles	<u>(5,196)</u>	<u>(650)</u>	<u>(5,846)</u>	<u>--</u>
Total Accumulated Depreciation	<u>(5,430)</u>	<u>(650)</u>	<u>(6,080)</u>	<u>--</u>
Total Capital Assets, Net	<u>\$ 8,203</u>	<u>\$ (650)</u>	<u>\$ (7,553)</u>	<u>\$ --</u>

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2005

Note 4: **Long-Term Liabilities**

The following is a summary of long-term debt transactions of the Commission for the year ended June 30, 2005:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2005</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 11,326	\$ 8,597	\$ (3,479)	\$ 16,444	\$ 3,478

The total estimated liability for the Commission employees for vacation at June 30, 2005 was \$16,444.

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:

Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds	\$ 16,444
	<u>\$ 16,444</u>

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.	\$ 5,118
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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.

Disposal of capital assets	7,553
Current year depreciation expense	<u>650</u>
	<u>\$ 13,321</u>

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2005

Note 6: Net Assets/Fund Balance

Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *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.

As of June 30, 2005, 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 are created to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or debt service. Such plans or intent are subject to change and have not been legally authorized and do not represent commitments of the Commission.

LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY

Notes to Financial Statements
June 30, 2005

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

Fund Balances (continued)

The Commission has designated fund balance as follows:

Professional services	\$ 100,000
Operating reserve	<u>11,983</u>
Total	<u>\$ 111,983</u>

Note 7: **Related Party Transactions**

A. **Support Services**

Pursuant to an agreement between the County of Napa and the Commission, the County provides support services to the Commission, including personnel and related benefits, legal support through County Counsel, and other services and supplies. During the year ended June 30, 2005, the Commission paid the County the following amounts for these services:

Office personnel and related benefits	\$ 402
Legal services	11,707
Information Technology Services	13,000
Professional Services	<u>3,842</u>
	<u>\$ 28,951</u>

B. **Revenues**

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 policy 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, 2005

Note 8: **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 Ending June 30,</u>	<u>Amount</u>
2006	\$ 29,280
2007	3,739
2008	3,739
2009	3,739
2010	<u>934</u>
Total	<u>\$ 41,431</u>

Rent expenditures were \$24,038 for the year ended June 30, 2005.

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 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, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>				
Intergovernmental revenues	\$ 417,214	\$ 309,846	\$ 315,729	\$ 5,883
Interest income	--	5,000	4,511	(489)
LAFCO planning fees	--	--	6,750	6,750
Miscellaneous	--	4,000	4,590	590
	<u>417,214</u>	<u>318,846</u>	<u>331,580</u>	<u>12,734</u>
<u>EXPENDITURES</u>				
Salaries and benefits	203,537	251,412	248,795	2,617
Services and supplies	<u>184,840</u>	<u>173,300</u>	<u>117,261</u>	<u>56,039</u>
	<u>388,377</u>	<u>424,712</u>	<u>366,056</u>	<u>58,656</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 28,837</u>	<u>\$ (105,866)</u>	(34,476)	<u>\$ 71,390</u>
Fund Balance - Beginning of Year			<u>151,362</u>	
Fund Balance - End of Year			<u>\$ 116,886</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, 2005

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

**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, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Local Agency Formation Commission of Napa County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

Board of Commissioners
Local Agency Formation Commission of Napa County

an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standard*.

This report is intended 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, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

September 1, 2005
Roseville, California