



**Local Agency Formation Commission of Napa County**  
Subdivision of the State of California

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Napa, California 94559  
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Fax: (707) 251-1053  
www.napa.lafco.ca.gov

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*We Manage Local Government Boundaries, Evaluate Municipal Services, and Protect Agriculture*

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**Agenda Item 7a (Action)**

**TO:** Local Agency Formation Commission

**PREPARED BY:** Tracy A. Schulze, County of Napa Auditor-Controller

**MEETING DATE:** December 3, 2018

**SUBJECT:** Financial Audit for Fiscal Year Ending June 30, 2018

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**RECOMMENDATION**

Receive and file the financial audit report for fiscal year 2017-18 (Attachment One).

**SUMMARY**

Brown Armstrong was retained to conduct an independent audit of the agency's financial statements for the 2017-18 fiscal year. Brown Armstrong completed their audit in November 2018 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 the audit is included as Attachment One.

Brown Armstrong's audit provides an unqualified opinion the Commission's financial statements are reliable representations of the agency's financial position as of June 30, 2018. This "clean" opinion affirms 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. The audit also affirms that the Commission is in relatively strong financial position given it finished the fiscal year with an unrestricted fund balance of \$445,675; an amount representing approximately 83.5% of the agency's budgeted expenditures for the 2017-18 fiscal year.

A financial summary chart is included as Attachment Three and depicts changes in the Commission's audited fund balance for the past 15 years, beginning with the 2003-04 fiscal year.

**ATTACHMENTS**

- 1) Local Agency Formation Commission Audit Report for the Fiscal Year Ended June 30, 2018
- 2) Communications Letter From Brown Armstrong to the Commissioners
- 3) LAFCO Financial Summary Chart

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Margie Mohler, Chair  
Councilmember, Town of Yountville

Scott Sedgley, Commissioner  
Councilmember, City of Napa

Kenneth Leary, Alternate Commissioner  
Councilmember, City of American Canyon

Brad Wagenknecht, Vice Chair  
County of Napa Supervisor, 1st District

Diane Dillon, Commissioner  
County of Napa Supervisor, 3rd District

Ryan Gregory, Alternate Commissioner  
County of Napa Supervisor, 2nd District

Gregory Rodeno, Commissioner  
Representative of the General Public

Erik Lawrence, Alternate Commissioner  
Representative of the General Public

Brendon Freeman  
*Executive Officer*

**LOCAL AGENCY FORMATION  
COMMISSION OF NAPA COUNTY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
JUNE 30, 2018**

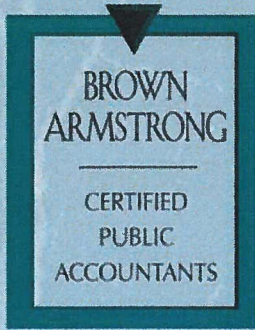
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**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
COMMISSION MEMBERSHIP  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Margie Mohler	Chair City Selection Committee	May 2021
Brad Wagenknecht	Vice Chair Napa County Board of Supervisors	May 2020
Diane Dillon	Commissioner Napa County Board of Supervisors	May 2022
Scott Sedgley	Commissioner City Selection Committee	May 2019
Gregory Rodeno	Commissioner Public Member	May 2022
Kenneth Leary	Alternate Commissioner City Selection Committee	May 2019
Ryan Gregory	Alternate Commissioner Napa County Board of Supervisors	May 2021
Erik Lawrence	Alternate Commissioner Public Member	May 2020

**FINANCIAL SECTION**



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Local Agency Formation Commission of Napa County (the Commission), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2018, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 8, 2018

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

The Local Agency Formation Commission of Napa County (the 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 preserving agricultural and open-space resources, promoting the orderly extension of municipal services, and discouraging 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 in order to knowledgeably perform 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, 2018, 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 the County of 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 autonomous of the County in terms of fulfilling its statutory duties and responsibilities. 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, 2018, is offered by the Commission's manager, the Executive Officer, to provide greater context to the audit performed by the Commission's independent auditor, Brown Armstrong Accountancy Corporation. 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 Position 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 note disclosures, which further describe the Commission's activities.

#### **Government-Wide 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 Position presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net position.

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position 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 used to maintain control over resources 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 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.

## Notes to Financial Statements

The notes provide additional information 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.

## FINANCIAL ANALYSIS OF THE COMMISSION

### Net Position

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

### Condensed Statement of Net Position As of June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
<b>Assets</b>			
Current Assets	\$ 451,440	\$ 423,784	\$ 27,656
<b>Total Assets</b>	<u>451,440</u>	<u>423,784</u>	<u>27,656</u>
<b>Liabilities</b>			
Current Liabilities	5,765	18,349	(12,584)
<b>Total Liabilities</b>	<u>5,765</u>	<u>18,349</u>	<u>(12,584)</u>
<b>Net Position</b>			
Unrestricted	445,675	405,435	40,240
<b>Total Net Position</b>	<u>\$ 445,675</u>	<u>\$ 405,435</u>	<u>\$ 40,240</u>

State law requires that the County and the five cities of Napa County fund the Commission's budget each year. The Commission is also authorized to establish and collect fees for purposes of offsetting agency contributions. It is also the practice of the Commission to make use of its unrestricted fund balance to help cover operating costs to help minimize the fiscal impact on local agencies as long as the balance does not fall below the equivalent of four months of operating expenses. This practice of using the unrestricted fund balance to help cover operating costs occasionally results in budgeting an operating shortfall. For the fiscal year ending June 30, 2018, the Commission budgeted an operating shortfall of \$(81,077). The actual operating net was a surplus of \$40,240, primarily due to the decrease in expenses relating to the vacancy in the Commission's analyst position.

### Changes in Net Position

The government-wide financial statement presented below 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.

#### Condensed Statement of Activities For the Year Ended June 30, 2018

	2018	2017	Variance
<b>Revenues:</b>			
Intergovernmental	\$ 427,448	\$ 449,944	\$ (22,496)
Charges for Services	9,721	5,293	4,428
Interest Income	6,701	4,318	2,383
<b>Total Revenues</b>	<b>443,870</b>	<b>459,555</b>	<b>(15,685)</b>
<b>Expenses:</b>			
Contracted Administrative Services	256,086	255,239	847
Services and Supplies	147,544	151,968	(4,424)
<b>Total Expenses</b>	<b>403,630</b>	<b>407,207</b>	<b>(3,577)</b>
<b>Change in Net Position</b>	<b>40,240</b>	<b>52,348</b>	<b>(12,108)</b>
<b>Net Position - Beginning of Year</b>	<b>405,435</b>	<b>353,087</b>	<b>52,348</b>
<b>Net Position - End of Year</b>	<b>\$ 445,675</b>	<b>\$ 405,435</b>	<b>\$ 40,240</b>

#### 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, 2018, the Commission reported an ending fund balance of \$445,675 for an increase of \$40,240 from the prior year.

#### BUDGETARY HIGHLIGHTS

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 contracted administrative services by controlling spending in other accounts.

**CAPITAL ASSETS**

During fiscal year 2008-2009, the Commission purchased an electronic document management system with a cost of \$19,657. This asset was being depreciated over an estimated useful life of 5 years, using the straight-line depreciation method, and therefore was fully depreciated as of fiscal year 2013-14.

**DEBT ADMINISTRATION**

With the close of the fiscal year on June 30, 2018, 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 2018-2019, 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 2018-2019 budget is \$691,123, an overall percentage increase of 39% from prior year's original adopted budget based on prior year actuals, the anticipated filling of the vacant full-time Analyst position, and a scheduled Countywide Water and Wastewater Municipal Service Review.

**CONTACTING THE COMMISSION**

These financial statements are designed to provide a general overview of the Commission's finances for all those interested. Through a memorandum of understanding, the 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  
1030 Seminary Street, Suite B  
Napa, California 94559

**FINANCIAL SECTION**

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

<b>Assets</b>	
Cash in County Treasury	\$ 448,240
Imprest Cash	100
Deposits with Others	2,000
Receivables	200
Prepays	900
	<hr/>
<b>Total Assets</b>	<b>451,440</b>
	<hr/>
<b>Liabilities</b>	
Accounts Payable	5,621
Accrued Expenses	144
	<hr/>
<b>Total Liabilities</b>	<b>5,765</b>
	<hr/>
<b>Net Position</b>	
Unrestricted	445,675
	<hr/>
<b>Total Net Position</b>	<b>\$ 445,675</b>
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The accompanying notes are an integral part of these financial statements.

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>Expenses</b>	
Contracted Administrative Services	\$ 256,086
Services and Supplies	<u>147,544</u>
<b>Total Expenses</b>	<u>403,630</u>
<b>Program Revenues</b>	
Intergovernmental Revenues:	
County of Napa	213,724
Other Governmental Agencies	213,724
Charges for Services	<u>9,721</u>
<b>Total Program Revenues</b>	<u>437,169</u>
Net Program Revenue	33,539
<b>General Revenues</b>	
Interest Income	<u>6,701</u>
<b>Change in Net Position</b>	40,240
<b>Net Position - Beginning of Year</b>	<u>405,435</u>
<b>Net Position - End of Year</b>	<u><u>\$ 445,675</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2018**

<b>Assets</b>	
Cash in County Treasury	\$ 448,240
Imprest Cash	100
Deposits with Others	2,000
Receivables	200
Prepays	900
	<hr/>
<b>Total Assets</b>	<b>\$ 451,440</b>
	<hr/> <hr/>
<b>Liabilities</b>	
Accounts Payable	\$ 5,621
Accrued Expenses	144
	<hr/>
<b>Total Liabilities</b>	<b>5,765</b>
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<b>Fund Balance</b>	
Assigned	19,657
Unassigned	426,018
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<b>Total Fund Balance</b>	<b>445,675</b>
	<hr/>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 451,440</b>
	<hr/> <hr/>

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

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Fund balance - governmental fund (page 9)	\$ 445,675
Amounts reported for governmental activities in the statement of net position are different because:	
No difference	<u>-</u>
Net position - governmental activities (page 7)	<u><u>\$ 445,675</u></u>

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



**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

**Revenues**

## Intergovernmental Revenues:

County of Napa	\$ 213,724
Other Governmental Agencies	213,724
Charges for Services	9,721
Interest Income	6,701

**Total Revenues**


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443,870

**Expenditures**

Contracted Administrative Services	256,086
Services and Supplies	147,544

**Total Expenditures**


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403,630

**Change in Fund Balance**

40,240

**Fund Balance - Beginning of Year**


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405,435

**Fund Balance - End of Year**


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**\$ 445,675**

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

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balance - governmental fund (page 11)	\$ 40,240
Amounts reported for governmental activities in the statement of activities are different because:	
No difference	<u>-</u>
Change in net position of governmental activities (page 8)	<u>\$ 40,240</u>

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

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Local Agency Formation Commission of Napa County (the 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, 2018, there are 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 members of the Napa County 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 Napa 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 and amended by Statement No. 61, 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.

**B. Basis of Presentation and Accounting**

*Government-Wide Statements*

The Statement of Net Position and Statement of Activities display information about the primary government (the 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**B. Basis of Presentation and Accounting** (Continued)*Government-Wide Statements* (Continued)

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 are those in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, including grants. Revenues from grants are recognized in the fiscal year in which all eligible requirements have been satisfied. No grants have been received or are anticipated to be received in the near future.

When both restricted and unrestricted net position are available, restricted resources are used before non-restricted resources.

*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 are generally recorded when a liability is incurred, as under the accrual basis of 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 are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital 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.

**D. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2018, consisted of the following:

Cash in County Treasury	\$ 448,240
Imprest Cash	100
	<hr/>
	\$ 448,340
	<hr/>

**NOTE 2 – CASH** (Continued)

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 Napa County's financial statements. Napa County's financial statements may be obtained by contacting the 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, 2018, 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 Napa County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value. The Commission has no deposit or investment policy that addresses a specific type of risk.

**NOTE 3 – CAPITAL ASSETS**

Capital assets at June 30, 2018, are as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets being depreciated:				
Equipment	\$ 19,657	\$ -	\$ -	\$ 19,657
Less accumulated depreciation:				
Equipment	(19,657)	-	-	(19,657)
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4 – NET POSITION/FUND BALANCE****Net Position**

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and capital contributions. Net position is classified in the following three components: net investment in capital assets, net position – restricted, and net position – unrestricted. The Commission reports net investment in capital assets and net position – unrestricted balances. Net investment in capital assets 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. Unrestricted net position consists of all other net position not included in the above categories.

**NOTE 4 – NET POSITION/FUND BALANCE** (Continued)**Fund Balance**

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2018, fund balances for governmental funds are made up of the following:

- *Nonspendable fund balance* – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level of action to remove or change the constraint.
- *Assigned fund balance* – amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commissioners or by an official or body to which the Commissioners delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Commissioners establishes (and modifies or rescinds) fund balance commitments by adopting a final budget no later than June 15th and approving amendments as needed throughout the fiscal year. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives).

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

The Commission strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately four months of expenditures.

**NOTE 5 – RELATED PARTY TRANSACTIONS**

During the fiscal year ended June 30, 2018, the Commission paid Napa County, a related party, \$271,098 for personnel and other support services.

In addition, the Commission received \$213,724 during the fiscal year ended June 30, 2018, from Napa County, a related party, pursuant to Government Code Section 56381. Napa County provides half of the intergovernmental revenue to the Commission. The other half is funded by the City of Napa, City of St. Helena, City of American Canyon, City of Calistoga, and Town of Yountville.

**NOTE 6 – 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 Napa County's basic financial statements.

**NOTE 7 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 8, 2018, which is the date the basic financial statements were available to be issued. No events have occurred that would require disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**



**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Intergovernmental Revenues	\$ 427,447	\$ 427,447	\$ 427,448	\$ 1
Charges for Services	20,500	20,500	9,721	(10,779)
Interest Income	<u>5,000</u>	<u>5,000</u>	<u>6,701</u>	<u>1,701</u>
<b>Total Revenues</b>	<u>452,947</u>	<u>452,947</u>	<u>443,870</u>	<u>(9,077)</u>
<b>Expenditures</b>				
Contracted Administrative Services	359,701	359,701	256,086	103,615
Services and Supplies	<u>139,012</u>	<u>174,323</u>	<u>147,544</u>	<u>26,779</u>
<b>Total Expenditures</b>	<u>498,713</u>	<u>534,024</u>	<u>403,630</u>	<u>130,394</u>
<b>Change in Fund Balance</b>	<u>\$ (45,766)</u>	<u>\$ (81,077)</u>	40,240	<u>\$ 121,317</u>
<b>Fund Balance - Beginning of Year</b>			<u>405,435</u>	
<b>Fund Balance - End of Year</b>			<u>\$ 445,675</u>	

**LOCAL AGENCY FORMATION COMMISSION OF NAPA COUNTY  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

**BUDGET AND BUDGETARY REPORTING**

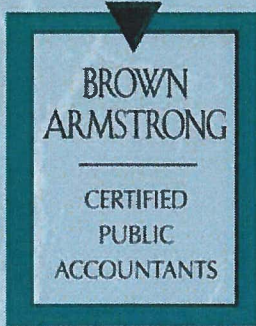
The Local Agency Formation Commission of Napa County (the Commission) prepares and legally adopts a final budget on or before June 15th of each fiscal year.

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 of accounting. 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 accounting principles generally accepted in the United States of America.

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**



# BROWN ARMSTRONG

*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

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REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

We have audited, in accordance with the 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, the financial statements of the Local Agency Formation Commission of Napa County (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 8, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

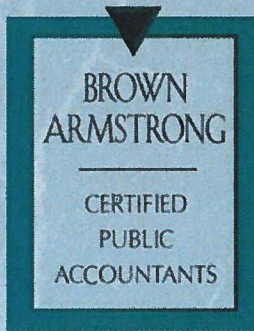
**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
November 8, 2018



# BROWN ARMSTRONG

*Certified Public Accountants*

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 (the Commission) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 16, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant 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 fiscal year ended June 30, 2018. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. There were no sensitive estimates.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing 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 clearly trivial, and communicate them to the appropriate level of management. No such misstatements were identified.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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 November 8, 2018.

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*Management Consultations with Other Independent Accountants*

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 Commission'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.

*Other Audit Findings or Issues*

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.

**Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

**Restriction on Use**

This information is intended solely for the information and use of the Board of Commissioners and management of the Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 8, 2018

LAFCO Financial Summary  
For the Past 15 Years

Attachment Three

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues	\$ 330,510	\$ 331,580	\$ 363,529	\$ 329,214	\$ 289,341	\$ 379,499	\$ 330,942	\$ 386,070	\$ 394,658	\$ 435,317	\$ 452,727	\$ 483,743	\$ 479,137	\$ 459,555	\$ 443,870
Expenses	342,558	366,056	300,653	292,636	283,622	389,688	373,993	385,677	404,358	414,578	424,924	430,146	387,701	407,207	403,630
Surplus/Deficit	\$ (12,048)	\$ (34,476)	\$ 62,876	\$ 36,578	\$ 5,719	\$ (10,189)	\$ (43,051)	\$ 393	\$ (9,700)	\$ 20,739	\$ 27,803	\$ 53,597	\$ 91,436	\$ 52,348	\$ 40,240
<b>Fund Balance:</b>															
Beginning Fund Balance	\$ 163,410	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059	\$ 211,870	\$ 168,819	\$ 169,212	\$ 159,512	\$ 180,251	\$ 208,054	\$ 261,651	\$ 353,087	\$ 405,435
Surplus/Deficit 6/30	(12,048)	(34,476)	62,876	36,578	5,719	(10,189)	(43,051)	393	(9,700)	20,739	27,803	53,597	91,436	52,348	40,240
Ending Fund Balance	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059	\$ 211,870	\$ 168,819	\$ 169,212	\$ 159,512	\$ 180,251	\$ 208,054	\$ 261,651	\$ 353,087	\$ 405,435	\$ 445,675
<b>Breakdown of Fund Balance:</b>															
Professional Services	\$ 100,000	\$ 100,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Reserve	22,462	11,983	35,174	36,978	37,879	40,594	-	-	-	-	-	-	-	-	-
Petty Cash Reserve	-	-	-	-	-	-	100	100	100	100	100	100	100	100	100
Equipment Replacement Reserve	-	-	-	-	-	-	3,931	7,862	11,793	15,724	19,557	19,557	19,557	19,557	19,557
Future Projects	-	-	-	-	55,000	-	-	-	-	-	-	-	-	-	-
Reserve for Encumbrances	4,000	4,803	165	-	-	-	-	-	-	-	-	-	-	-	-
Available Fund Balance	24,900	100	94,423	129,362	79,180	121,276	164,788	161,250	147,619	164,427	188,397	241,994	333,430	385,778	426,018
Total Fund Balance	\$ 151,362	\$ 116,886	\$ 179,762	\$ 216,340	\$ 222,059	\$ 211,870	\$ 168,819	\$ 169,212	\$ 159,512	\$ 180,251	\$ 208,054	\$ 261,651	\$ 353,087	\$ 405,435	\$ 445,675

