

# NAPA SANITATION DISTRICT

NAPA, CA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended  
June 30, 2016



[www.napasan.com](http://www.napasan.com)

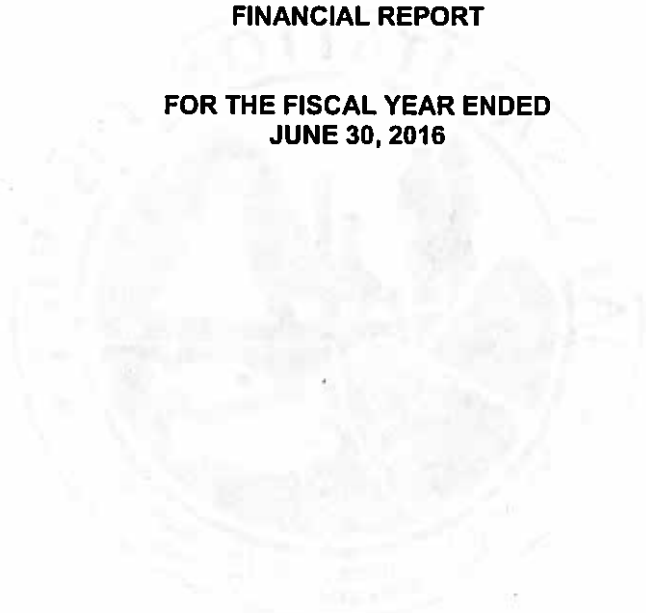




**NAPA SANITATION DISTRICT  
NAPA, CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**



**PREPARED BY THE NAPA SANITATION DISTRICT  
FINANCE DEPARTMENT**

**JEFF TUCKER  
DIRECTOR OF ADMINISTRATIVE SERVICES/  
CHIEF FINANCIAL OFFICER**



**NAPA SANITATION DISTRICT  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**INTRODUCTORY SECTION**









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Dedicated to Preserving the Napa River for Generations to Come

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November 18, 2016

The Board of Directors  
Napa Sanitation District

Directors:

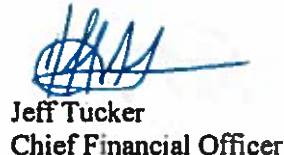
Management of the Napa Sanitation District (NSD or the District) has prepared a Comprehensive Annual Financial Report of NSD for the fiscal year ended June 30, 2016. This document, which contains a complete set of basic financial statements, is presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report contains management's representations concerning the finances of the District. Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, NSD management has established a comprehensive framework of internal controls. These controls are designed to protect the District's assets from loss, theft, or misuse, and to ensure sufficiently reliable information for the preparation of the District's basic financial statements in accordance with GAAP. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatement. However, one inherent limitation of internal control is that a certain degree of risk will always be unavoidable because of cost/benefit considerations.

The District's basic financial statements have been audited by Brown Armstrong Accountancy Corporation Certified Public Accountants, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the District for the fiscal year ended June 30, 2016, were free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor rendered an unqualified opinion that the District's basic financial statements for the fiscal year ended June 30, 2016, are fairly represented in accordance with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A profile of the District is presented in this Introductory Section. In the Financial Section, Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.

  
Tim Healy  
General Manager

  
Jeff Tucker  
Chief Financial Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Napa Sanitation District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# Profile of the Napa Sanitation District

## **Mission**

*It is the mission of the Napa Sanitation District to collect, treat, beneficially reuse, and dispose of wastewater in an effective and economical manner that respects the environment, maintains the public's health and meets or exceeds all local, state, and federal regulations.*

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## **Overview**

Napa Sanitation District (the District), located in the Napa Valley in Northern California, has been serving the public since it was organized under the California Health and Safety Code in November 1945.

The District provides wastewater collection, treatment and disposal services to the residents and businesses in the City of Napa and surrounding unincorporated areas of Napa County.

Wastewater was processed at the treatment facility north of Imola Avenue and west of Soscol Boulevard until 1998, when all treatment activities were moved to the Soscol Water Recycling Facility (SWRF) near the Napa County

Airport. The Imola Avenue treatment facility was demolished in 2002 after completion of the Napa County Flood Control District Project, which relocated the railroad tracks onto the District's Imola property. In 2013, the District's Administration, Engineering and Collection System offices relocated to the SWRF.

## **Governance and Management**

The District is an independent special district public agency governed by a five-member Board of Directors. Membership of the Board is established by state law and consists of the mayor of the City of Napa, a Napa City Councilperson, a Supervisor from Napa County, and two citizen appointees. One citizen is appointed by the Napa City Council, and the other by the Napa County Board of Supervisors.

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## **Public Services**

There are over 36,000 connections within the District's approximately 20 square miles of service area. Through a network of approximately 270 miles of underground sewer pipelines, assisted by a system of three lift stations, the sewage makes its way to the SWRF for treatment and resource recovery.

The SWRF is a secondary and tertiary biological physical-chemical treatment facility that treats a mixture of domestic and industrial wastewater. The District has completed upgrades to the SWRF, which include primary treatment, activated sludge facilities, tertiary filtration, and sludge digestion and solids dewatering facilities.

The SWRF has a dry weather treatment design capacity of 15.4 million gallons per day (MGD). The historic average daily influent flow for the past ten years is approximately 8.4 MGD. The wastewater is treated and discharged in various manners, depending on the source of the wastewater and the time of year.

The District's regulating body, the Regional Water Quality Control Board, permits discharge to the Napa River from November 1 through April 30 (the wet season period). The District provides full secondary treatment and disinfection at its wastewater facility whenever discharging to the Napa River.

From May 1 through October 31 (the dry season period) discharge to the Napa River is prohibited and wastewater is either stored in stabilization ponds or treated to the tertiary level and beneficially reused as recycled water for irrigation in industrial parks, golf courses, pasturelands, and vineyards. High quality "Title

22 Unrestricted Use" recycled water is provided to all recycled water users.

For more information on the District's wastewater treatment process please visit the website at [www.NapaSan.com](http://www.NapaSan.com).

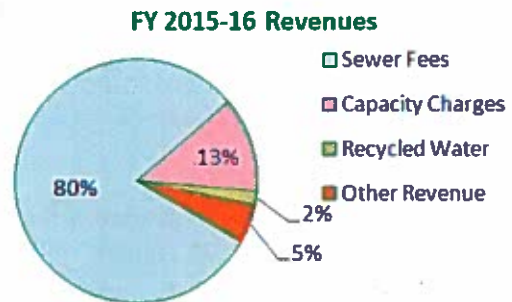
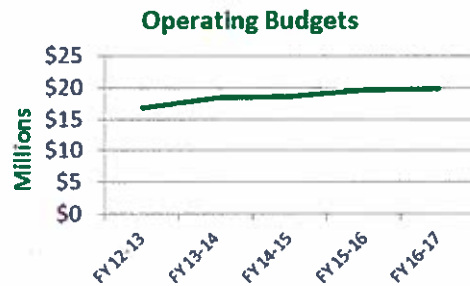
## Financial Plan

The District's operating budget for Fiscal Year (FY) 2015/16 was \$19.6 million (including debt service and excluding intrafund transfers); the FY 2016/17 operating budget increased by 0.7% to \$19.8 million.

In addition to the operating budget, the District has a capital budget based upon new and replacement infrastructure needs. A \$30,459,450 capital budget was adopted at the beginning of FY 2015/16; this budget was increased by \$2,988,550 for projects carried forward from the 2014/15 fiscal year and for adjustments made to the 10- Year Capital Improvement Plan (CIP).

The District's 10-Year CIP approved in FY 2015/16 includes 211 construction projects and capital equipment purchases totaling more than \$206 million over the next 10 years. The new plan adopted for FY 2016/17 includes a continuation of the recommendations of the new Treatment Plant Master Plan and expansions of the recycled water storage system and totals \$182 million.

As shown in the pie chart below, most of the District's operating revenue comes from sewer charges. Other major revenue sources are capacity fees and the sale of recycled water. Other revenues include lease revenue, interest earnings, and development review fees.



## User Rates and Charges

### Sewer Service Charges

Sewer service charges are assessed on all residential properties equally through an annual assessment on the property taxes. Commercial businesses are assessed sewer fees based on water consumption and also collected through an annual assessment on the property taxes. Industrial users are assessed sewer fees based on water consumption and strength factor and directly invoiced monthly.

All sewer use charges are based on an Equivalent Dwelling Unit (EDU). An EDU is equivalent to the combination of flow and strength of the wastewater that is discharged from a typical single family home.

In 2006, the District increased its sewer fees by 15% per year for three years, then by the Consumer Price Index (CPI) thereafter, in response to a 10-year period where the District did not increase its sewer fees. The sewer use fee increased from \$274 per EDU in FY 2005/06 to \$416 per EDU in FY 2008/09. For the next two years, the fee increased by inflation, 1.2% in FY 2009/10 and 1.8% in FY 2010/11.

For FY 2011/12 and the four following years, the Board of Directors set the sewer use fee to increase by the CPI. In FY 2011/12, the fee increase was 1.5%, 2.9% in FY 2012/13, 2.2% in FY 2013/14, in 2.6% in FY 2014/15, and 2.7% in FY 2015/16.

In March 2016, the Board of Directors set the maximum charges for the next five years beginning in FY 2016/17. A fee increase of 15% was approved for FY 2016/17.

**Sewer Service Charges**

	Charge per EDU	% Increase
FY97-FY06	\$271.00	
FY07	\$315.00	15.0%
FY08	\$362.00	15.0%
FY09	\$416.00	15.0%
FY10	\$421.00	1.2%
FY11	\$429.00	1.8%
FY12	\$435.44	1.5%
FY13	\$448.07	2.9%
FY14	\$457.92	2.2%
FY15	\$469.82	2.6%
FY16	\$482.50	2.7%
FY17	\$554.88	15.0%

**Capacity Charges**

Capacity charges, sometimes referred to as “connection fees,” are fees paid for the issuance of a permit to connect to the District’s sewer system.

The capacity charge fee had not increased since 1995, when it was increased to \$5,660 per EDU. On September 15, 2010, the Board of Directors adopted a new fee schedule for capacity charges, to be phased in over three years according to the following schedule, then by an inflation factor annually thereafter:

**Capacity Charges**

	Charge per EDU
1996 – 2011	\$5,660 per EDU
Jan. 1, 2012	\$6,000 per EDU
July 1, 2012	\$7,000 per EDU
July 1, 2013	\$8,300 per EDU
July 1, 2014	\$8,723 per EDU
July 1, 2015	\$8,950 per EDU
Every July 1 Thereafter	Increase by an inflation factor

While the Sewer Service Charges pay for the day-to-day collection and treatment of wastewater, the Capacity Charges pay for the expansion of sewer and treatment plant capacity.

**Factors Affecting Financial Condition**

The information presented in the Financial Section is perhaps best understood in the context of the economic environment in which the District operates and strategic direction which the District has chosen to take, as discussed below.

**Local Economy**

Napa County is a rural community in California, north of the San Francisco and San Pablo bays, with just over 135,000 residents. The local economy is dominated by wine production and associated hotels, restaurants, and other businesses that support the wine industry and

tourism. Located toward the southern end of the Napa County, the District provides wastewater services to the City of Napa, the Napa County's largest city (population 77,000), and some surrounding unincorporated areas.

Over the past decade, the District grew due to growth in both the residential and commercial sectors. This growth slowed considerably with the slowdown in the economy starting in 2009. There is still land available for development within the service area of the District.

Neither the State of California's financial condition nor property valuations have significantly impacted the District, as the District has never had an *ad valorem* property tax nor is it dependent on state or federal financial support.

#### **Strategic Planning**

In May 2015, the Board of Directors updated its Strategic Plan, articulating the long-term goals, objectives and priorities of the District. Under each goal and objective, there are specific tasks identified with due dates. FY 2015/16 was the first year of the updated Strategic Plan and incorporated these goals and objectives in its operational plan.

#### **Goal 1: Infrastructure Reliability**

##### **Objectives:**

- 1A: Implement Treatment Plant Master Plan critical projects (pond aeration, recycled water equalization and filters, and influent pump station)
- 1B: Complete cost/benefit analysis of wet weather inflow/infiltration
- 1C: Determine target for renewal and replacement of sewer assets
- 1D: Develop an Asset Management program
- 1E: Design and construct the Browns Valley Road Interceptor and any associated capacity enhancements at the West Napa Pump Station
- 1F: Amend the Collection System Master Plan
- 1G: Study whether to implement a Private Lateral Program

#### **Goal 2: Financial Stability**

##### **Objectives:**

- 2A: Develop non-rate, revenue-generating opportunities that fit within the District's mission, either on its own or through private/public investment
- 2B: Complete a study of plan check/inspection fees and methodology options for calculating and assessing capacity charges
- 2C: Conduct a Sewer Service Charge fee study prior to the next Proposition 218 hearing
- 2D: Develop financing plan for Browns Valley Road sewer project and implement as appropriate

#### **Goal 3: Operational Capability**

##### **Objectives:**

- 3A: Partner with winery industry to research and develop a mutually beneficial alternative to treating winery waste
- 3B: Negotiate a new 5-year NPDES permit

#### **Goal 4: Employee Development**

##### **Objectives:**

- 4A: Promote the District as progressive, professional organization to foster a reputation regionally and state-wide as a great place to work
- 4B: Conduct employee survey
- 4C: Implement Employee Master Plan recommendations
- 4D: Participate in Programs to Develop Qualified and Trained Operators

#### **Goal 5: Community Outreach and Communication**

##### **Objectives:**

- 5A: Be proactive in developing partnerships with local businesses and other public agencies to achieve common goals
- 5B: Create a communications plan to address NSD outreach and public information needs

**Goal 6: Resource Recovery**

- 6A: Implement capital projects in partnership with local agencies for the distribution of recycled water
- 6B: Participate with local partners on long-term opportunities for water reuse
- 6C: Study and develop pathway to become energy independent. Begin by setting targets for the percentage of self-generated energy

The Strategic Plan provides detail on these goals and specific objectives. On a quarterly basis, progress on these goals and objectives is reported to the Board of Directors.

***Financial Policies***

In May 2012, the District updated and confirmed its comprehensive set of Financial Policies to govern the overall financial management and health of the District. Policy areas include:

- Reserves
- Revenue
- Budgeting and Capital Asset Management
- Debt Issuance and Management
- Investments
- Financial Reporting
- Accounting

Several of the Financial Policies have direct impact on the financial statements presented in this document:

- **Balanced Budget** – the District maintains a balanced budget and does not use long-term debt to fund short-term or operational expenses.
- **Operating Reserves** – the District maintains an operating reserve at least equal to 15% of budgeted annual operating expenses, excluding debt service and transfers.

- **Liquidity** – the District maintains a liquidity reserve to ensure adequate cash is on hand to cover expenses in those months where expenses outpace revenues. The majority of the District's revenues are received in December and in April through property assessments.
- **Revenues** – the District estimates revenues conservatively and does not use one-time or unpredictable revenues to fund ongoing expenses.
- **Maintenance** – the District protects its investment in its capital assets by budgeting for their adequate maintenance as a priority.
- **Debt** – the District will not issue debt unless it can pay the debt service and still meet its other obligations from current revenues.
- **Audit** – the District has its financial statements audited annually by an independent qualified third party in accordance with generally accepted auditing standards.
- **Financial Reporting** – the District reports on its financial position to the Board of Directors monthly and quarterly.

A complete copy of the Financial Policies can be found in the Appendix of the District's Annual Budget, available at [www.NapaSan.com](http://www.NapaSan.com).



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## ***Awards and Acknowledgements***

### ***Award Recognition***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Napa Sanitation District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the fifth year that the Napa Sanitation District has received this prestigious national award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized CAFR. This Report must also satisfy both GAAP and applicable legal requirements.

A *Certificate of Achievement for Excellence in Financial Reporting* from the GFOA is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement requirements and staff will submit it to the GFOA to determine eligibility for another certificate.

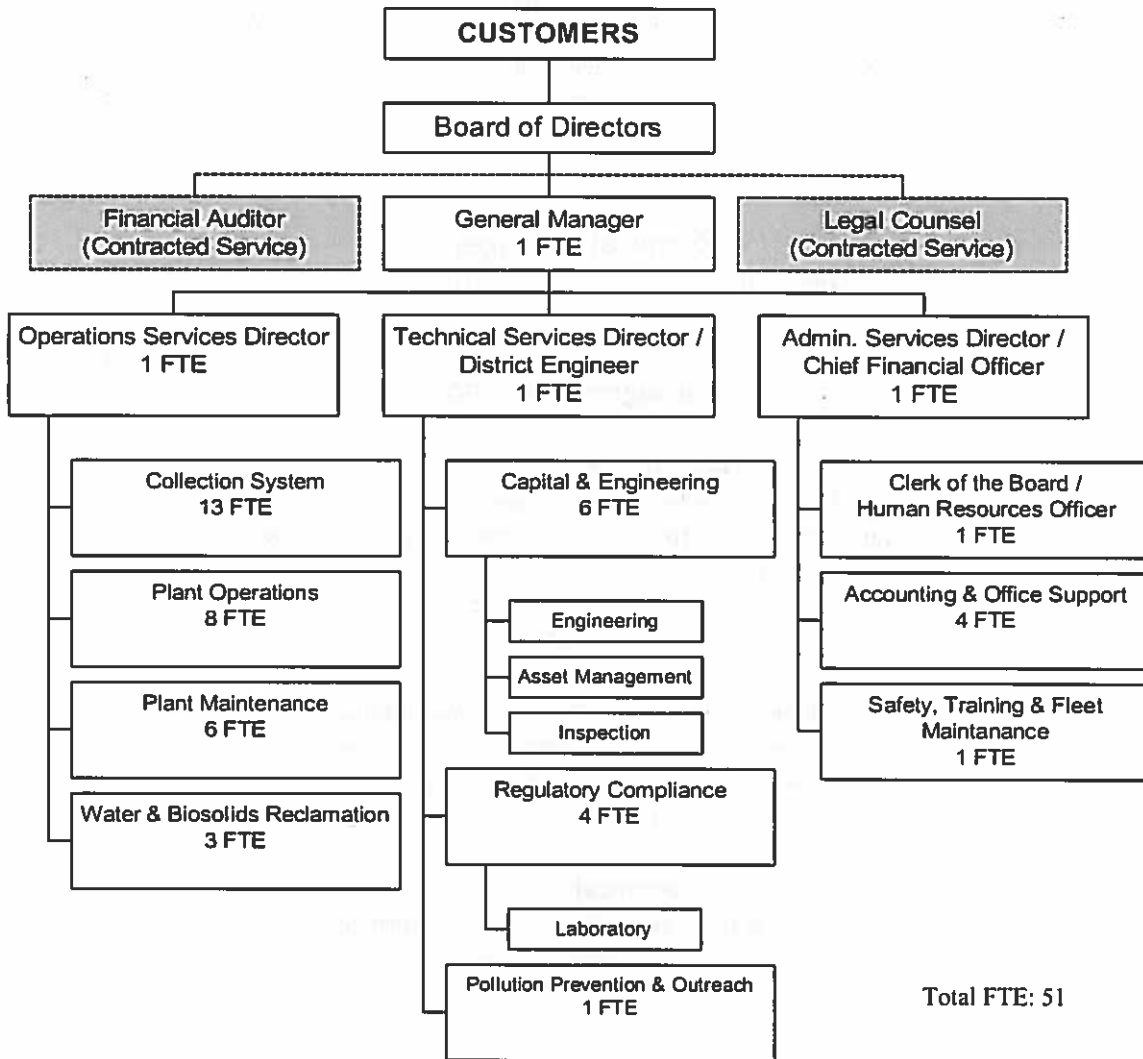
### ***Acknowledgements***

The preparation of this report would not have been possible without the dedicated efforts of the entire Finance Division staff, as well as the audit firm of Brown Armstrong Accountancy Corporation Certified Public Accountants. All those who contributed to the preparation of this report deserve commendation for their dedication and hard work. In particular, we would like to express special appreciation to Cyndi Bolden, Senior Accountant, and the entire Finance Division.

We also wish to recognize the commitment of the General Manager, Chief Financial Officer, and the Board of Directors to the high standards embodied in this Report and express appreciation to them and each District department for its cooperation and support in conducting the fiscal operations of the District.

**Organizational Chart**

**Napa Sanitation District  
Organizational Chart  
(By Function)**



# **Napa Sanitation District Fiscal Year 2015/16**

## **Board of Directors**

Jill Techel, Chair  
Keith Caldwell, Vice-Chair  
Peter Mott, Director  
Charles Gravett, III, Director  
David Graves, Director  
Mark Luce, Alternate Director  
Mary Luross, Alternate Director

## **General Manager**

Tim Healy, General Manager/District Engineer

## **Management Team**

### **Administrative Services**

Jeff Tucker, Director of Administrative Services/Chief Financial Officer  
Cheryl Schuh, Clerk to the Board/Human Resources Officer  
Cyndi Bolden, Senior Accountant

### **Operations Services**

Jim Keller, Operations Services Director  
Nick Becker, Interim Collection System Manager  
Frank Ziliotto, Plant Operations Supervisor  
Mark Egan, Plant Maintenance Supervisor  
David Martin, Reclamation Systems Manager

### **Technical Services**

Andrew Damron, Technical Services Director  
Mark Koekemoer, Regulatory Compliance Manager



**FINANCIAL SECTION**





# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Napa Sanitation District  
Napa, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Napa Sanitation District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements as of and for the year ended June 30, 2015, were audited by other auditors whose report dated November 23, 2015, expressed an unmodified opinion on those financial statements.

### 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 audit 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 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 District'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 District'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.

#### BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpat.com

#### FRESNO OFFICE

7673 N. INGRAM AVENUE  
SUITE 101  
FRESNO, CA 93711  
TEL 559.476.3592  
FAX 559.476.3593

#### PASADENA OFFICE

260 S. LOS ROBLES AVENUE  
SUITE 310  
PASADENA, CA 91101  
TEL 626.204.6542  
FAX 626.204.6547

#### STOCKTON OFFICE

5250 CLAREMONT AVENUE  
SUITE 150  
STOCKTON, CA 95207  
TEL 209.481.4833

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

During the year ended June 30, 2016, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to the matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, schedule of contributions, and schedule of funding status – other postemployment benefit plan 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 (GASB), 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bakersfield, California  
November 18, 2016

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*





**MANAGEMENT'S DISCUSSION AND ANALYSIS**



**NAPA SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

This section of the Napa Sanitation District's (the District) Comprehensive Annual Financial Report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's Financial Statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the 2015/16 fiscal year by \$166,990,510 (*net position*), an increase of \$21,339,629. Of this amount, \$5,782,378 (*unrestricted net position*) may be used to meet ongoing obligations to citizens and creditors and \$161,208,132 is net investment in capital assets.
- Current year results reflect operating income of \$5,178,292, an increase of \$2,856,247 from prior year. Operating expenses decreased by \$498,718 while operating revenue increased by \$2,357,529.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's Basic Financial Statements. The Statement of Net Position (pages 8-9); the Statement of Revenues, Expenses, and Changes in Net Position (page 10); and the Statement of Cash Flows (pages 11-12) provide information about the activities of the District. The financial statements also include various footnote disclosures, which further describe the District activities.

**Condensed Statement of Net Position**

	2016	2015	2014
<b>Assets:</b>			
Current and other assets	\$ 25,221,215	\$ 26,971,193	\$ 43,533,472
Capital assets, net	217,579,622	199,244,754	168,218,056
<b>Total assets</b>	242,800,837	226,215,947	211,751,528
<b>Deferred outflows of resources:</b>			
Deferred employer pension contributions	3,538,010	1,242,111	-
<b>Liabilities:</b>			
Current and other liabilities	11,606,705	11,744,152	7,863,126
Long-term liabilities	66,582,206	67,972,438	61,603,329
<b>Total liabilities</b>	78,188,911	79,716,590	69,466,455
<b>Deferred inflows of resources:</b>			
Deferred pension	1,159,426	2,090,587	-
<b>Net position:</b>			
Net investment in capital assets	161,208,132	139,960,309	115,847,267
Unrestricted	5,782,378	5,690,572	26,437,806
<b>Total net position</b>	\$ 166,990,510	\$ 145,650,881	\$ 142,285,073

During the fiscal year ended June 30, 2016, net position increased by \$21,339,629 mostly attributable to an increase in capital grants and contributions and an increase in sewer and capacity charges.

The District reports an increase in net investment in capital assets, combined with an increase in the unrestricted component of net position, for an overall increase in total net position.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>			
Sewer charges	\$ 19,887,172	\$ 19,190,535	\$ 18,665,200
Capacity charges	3,139,503	1,568,328	1,774,081
Other charges for services	<u>828,408</u>	<u>738,691</u>	<u>688,166</u>
 Total operating revenues	 <u>23,855,083</u>	 <u>21,497,554</u>	 <u>21,127,447</u>
<b>Operating expenses:</b>			
Wastewater collection, treatment, and reclamation	4,301,831	3,970,988	4,250,551
Administration and general	6,623,936	7,661,562	7,672,296
Depreciation	<u>7,751,024</u>	<u>7,542,959</u>	<u>7,302,132</u>
 Total operating expenses	 <u>18,676,791</u>	 <u>19,175,509</u>	 <u>19,224,979</u>
 Operating income	 5,178,292	 2,322,045	 1,902,468
<b>Nonoperating revenue (expense)</b>			
Interest income	63,905	147,041	246,457
Interest expense	(1,815,759)	(1,936,274)	(2,116,353)
Gain on asset disposal	14,147	21,518	2,848,164
Other revenues	<u>795,112</u>	<u>766,496</u>	<u>874,914</u>
 Total nonoperating revenue (expense)	 <u>(942,595)</u>	 <u>(1,001,219)</u>	 <u>1,853,182</u>
 Net income before capital grants and contributions	 4,235,697	 1,320,826	 3,755,650
 Capital grants and contributions	 <u>17,103,932</u>	 <u>12,575,906</u>	 <u>2,852,000</u>
 Change in net position	 21,339,629	 13,896,732	 6,607,650
 Net position, beginning of year, as restated	 <u>145,650,881</u>	 <u>131,754,149</u>	 <u>135,677,423</u>
 Net position, end of year	 <u>\$ 166,990,510</u>	 <u>\$ 145,650,881</u>	 <u>\$ 142,285,073</u>

For the fiscal year ended June 30, 2016, operating revenue increased by \$2,357,529 while operating expenses decreased by \$498,718. The increase in operating revenue is due primarily to higher capacity charges (\$3,139,503). These were received for the development of the Archer Hotel. There was an increase in utilities by \$161,997 and an increase in depreciation by \$208,065. These operating expenses were offset by a decrease in salaries and benefits (\$1,083,259). The decrease in salaries and benefits is a result of the accounting standard implemented by the Governmental Accounting Standards Board for pensions.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District has a ten-year capital improvement program and publishes a capital budget annually in conjunction with the District's budget process. The capital improvement program is reviewed and updated on an annual basis, with amendments made during the fiscal year, if necessary.

As of June 30, 2016, the District's investment in capital assets amounted to \$161,208,132 (net of accumulated depreciation), an increase of \$21,247,823. This investment in capital assets includes land, building and improvements, equipment, construction in progress, donated sewer lines, and other contributed assets. The most significant increase was in buildings and improvements (\$16,705,572).

The table below provides a comparison of the District's capital assets for the current and prior years.

#### Capital Assets, Net of Accumulated Depreciation

	2016	2015	2014
Land	\$ 7,426,149	\$ 7,426,149	\$ 7,426,149
Buildings and improvements	132,448,007	115,742,435	114,663,951
Equipment	3,379,547	3,030,322	3,085,481
Construction in progress	55,057,991	54,526,210	24,552,640
Donated sewer lines and other contributed assets	<u>19,267,928</u>	<u>18,519,638</u>	<u>18,489,835</u>
	<u>\$ 217,579,622</u>	<u>\$ 199,244,754</u>	<u>\$ 168,218,056</u>

Major capital projects for the fiscal year include the following:

- Near completion of construction work of 9 miles of recycled water distribution pipeline for the Los Cameros Water District.
- Near completion of construction work of 5 miles of a recycled water distribution pipeline in the Milliken-Sarco-Tulocay area.
- Near completion of construction work of separating the pumping pressures of the recycled water pumps to the north and to the south to ensure adequate pressure in each direction with the expansion of recycled water distribution.
- Completion of major rehabilitation of about 3.8 miles of sewer main lines and laterals in the Basin L area (Phase 4), and start of Phase 5 rehabilitation in the same Basin L.

For additional information on capital assets, see Note 3 on page 18.

### Long-Term Obligations

At June 30, 2016, the District's total long-term obligations were \$66,582,206, compared to \$67,972,438 in the prior year. The long-term obligations amount was comprised of \$10,951,783 of the net pension liability, \$103,707 of compensated absences and long-term debt of \$55,526,716.

For additional information on long-term debt, see Note 4 on page 19.

## **FUTURE PROJECTIONS**

### Revenue Projections

The District has a stable revenue foundation, with about 83% of the District's operating revenues in FY 2015/16 coming from sewer service charges collected as assessments on property tax bills. Other significant revenue sources include capacity charges (13% of operating revenue), federal grants, payments from other agencies, land leases, and recycled water sales. With the near completions of the Milliken-Sarco-Tulocay (MST) recycled water pipeline and Los Carneros Water District (LCWD) recycled water pipeline, both of which were paid for through federal and state grants and through contributions from other governments, capital grant proceeds will be significantly less in FY 2016/17.

Sewer service charges are forecasted for the next year based on the actual number of Equivalent Dwelling Units (EDUs). In March 2016, the Board of Directors conducted public hearings pursuant to California Proposition 218 and set the maximum charges for the next five years. The FY 2016/17 budget includes an increase in the rate of 15%, from \$482.50 per EDU to \$554.88. This increase will result in almost \$2.7 million in additional revenue. The total budgeted revenue is adjusted by a small percentage to account for delinquency in property tax payments. The top ten sewer service customers represent approximately 10% of revenue. This distributed revenue source results in a more stable revenue stream and is less susceptible to economic fluctuations than other revenue sources.

Capacity charges are forecasted for the next year based on the cost per EDU and an assumed growth rate of about 0.5%, or 200 EDUs being developed during the fiscal year, plus known hotel developments of approximately 395 EDUs. There was no change in the capacity charge fee and remained at \$8,950 per EDU on July 1, 2016. On July 1, 2017, and annually thereafter, the rate is scheduled to increase with the San Francisco Engineering News Record's Construction Cost Index (ENR-CCI), an inflation measure for capital infrastructure costs.

In March 2012, the Board established a rate setting methodology for recycled water that started in January 2016 to set recycled water rates. The standard summer rate in 2016 is \$1.57 per 1,000 gallons. In 2017, the rate is estimated to increase to \$1.61. Recycled water fees are forecasted based on historical use, adjusted for increases or decreases in anticipated use. This revenue source can vary by 10% - 20% or more depending on summer weather patterns. The recycled water sales increased in FY15 and FY16 due to the drought. However, FY17 assumes a "typical" year for weather.

Interest earnings are revenue the District receives on idle cash and reserves that it maintains in its accounts. Cash is invested by the County of Napa on the District's behalf and posted to the District's funds quarterly. For FY 2016/17, the District has assumed an interest earnings rate of 0.75%.

Capital grants and contributions are anticipated to continue in FY 2016/17 as the District invoices the U.S. Bureau of Reclamation, State Department of Water Resources, Napa County, and the Los Carneros Water District for reimbursements to wrap up the post construction phase of the recycled water pipeline projects. These projects are anticipated to be completed in FY 2016/17. The District will also receive reimbursement for the costs associated with the Sarco Creek Bridge sewer project and the extension of the MST recycled water pipeline.

FY 2016/17 District revenues from all sources, excluding internal transfers, are expected to be \$32,487,500. When compared to FY 2015/16 actual revenues, the FY 2016/17 revenues are projected to be lower by over \$13 million, due primarily to the anticipated revenue from the receipt of capital grants and contributions (\$2,250,000) being lower next year. Various changes in other revenue categories constitute the remaining difference in the revenue projections in comparison to FY 2015/16 actual revenues.

### Expense Projections

Salary and benefit expenses, including salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, retirement benefits, and other postemployment benefits (OPEB), are projected based on the Memoranda of Understanding (MOU) between the District and its various bargaining units. These MOUs have established minimum and maximum increases for some expenses, and negotiated the level of District responsibility for others. The budgeted salary and benefit expenses are anticipated to increase 3.6% from budgeted FY 2015/16 expenses, to \$9,382,370.

Supplies and services budget includes the purchase of supplies and equipment to maintain and operate the various systems in the District. It also includes a number of service contracts and professional contracts. FY 2016/17 supplies and services are budgeted to decrease 2.7% from FY 2015/16, to \$5,568,307. Decreases are primarily due to the removal of one-time only projects from the prior year.

Debt service expenses are projected based on actual principal and interest payment requirements. Debt service is expected to remain steady, at just over \$4.7 million, in FY 2016/17. However, the Capital Improvement Plan anticipates the issuance of debt to fund capital projects at the end of the next fiscal year.

Overall, operating expenses for the District in FY 2016/17 are expected to be \$19,751,980 (including debt service and excluding intrafund transfers). The capital budget (excluding intrafund transfers) is set at \$17,180,700 for FY 2016/17, although it is anticipated that the capital budget will increase due to unfinished projects in FY 2015/16 being carried forward into FY 2016/17.

### Financial Status

The financial condition of the District remains sound but is impacted by the continued low levels of local development, with notable exception of hotel developments. District operating revenues are stable, but capital expansion revenues are impacted as a result of reduced demand for new connections to the system, requiring that continued emphasis be placed on monitoring the short-term cash flows and the long-term Capital Improvement Plan by District Management and the District Board. As a result of the Board's action to increase sewer service charges, additional resources will be available to increase the District's investment in asset renewal and replacement.

The cost of employee benefits continues to rise for the District. Specifically, health benefits, which adversely impact current employee and retiree costs, and pension contributions are major contributors to escalating costs in the area of salaries and benefits. Energy and chemical rates in general will continue to rise and as such will require regular monitoring by staff, but the District is also taking actions to decrease usage of these commodities through the implementation of specific capital improvement projects.

With the District's decision to fund fully its OPEB ("Other Postemployment Benefits") Annual Required Contribution (ARC), the District has taken another step to help improve the long-term financial health of the District.

### **REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the District's finances for all those with interest in them. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Napa Sanitation District, 1515 Soscol Ferry Road, Napa, California 94558.







**BASIC FINANCIAL STATEMENTS**



**NAPA SANITATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016  
(WITH COMPARATIVE DATA FOR JUNE 30, 2015)**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Unrestricted assets:		
Cash in County treasury	\$ 16,367,311	\$ 16,292,556
Imprest cash	300	300
Assessments receivable	140,960	163,877
Accounts receivable (net)	6,241,430	8,188,744
Other receivables	88,846	30,262
Inventory	114,027	138,151
Prepaid expenses	27,350	154,901
Net OPEB Asset	240,890	-
Restricted cash:		
With fiscal agent	1,989,523	1,989,222
Flexible spending	10,578	13,180
<b>Total Current Assets</b>	<b>25,221,215</b>	<b>26,971,193</b>
<b>CAPITAL ASSETS</b>		
Nondepreciable	62,484,140	61,952,359
Depreciable, net	155,095,482	137,292,395
<b>Total Capital Assets</b>	<b>217,579,622</b>	<b>199,244,754</b>
<b>Total Assets</b>	<b>242,800,837</b>	<b>226,215,947</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred employer pension contributions	3,538,010	1,242,111
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 246,338,847</b>	<b>\$ 227,458,058</b>

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

**NAPA SANITATION DISTRICT  
STATEMENT OF NET POSITION (Continued)  
JUNE 30, 2016  
(WITH COMPARATIVE DATA FOR JUNE 30, 2015)**

	2016	2015
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,209,099	\$ 7,404,084
Salaries and benefits payable	349,867	345,546
Unearned revenue	52,508	1,430
Deposits from others	18,245	105,311
Interest payable	813,262	861,845
Current portion of compensated absences	329,427	294,222
Current portion of long-term debt	2,834,297	2,731,714
Total Current Liabilities	11,606,705	11,744,152
<b>NONCURRENT LIABILITIES</b>		
Liability for compensated absences	103,707	139,778
Net pension liability	10,951,783	9,290,707
Long-term debt, including unamortized original issue premium	55,526,716	58,541,953
Total Non-Current Liabilities	66,582,206	67,972,438
Total Liabilities	78,188,911	79,716,590
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	1,159,426	2,090,587
<b>NET POSITION</b>		
Net investment in capital assets	161,208,132	139,960,309
Unrestricted	5,782,378	5,690,572
Total Net Position	166,990,510	145,650,881
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 246,338,847	\$ 227,458,058

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

**NAPA SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Sewer charges	\$ 19,887,172	\$ 19,190,535
Capacity charges	3,139,503	1,568,328
Other charges for services	<u>828,408</u>	<u>738,691</u>
Total operating revenues	<u>23,855,083</u>	<u>21,497,554</u>
<b>OPERATING EXPENSES</b>		
Insurance	189,308	188,345
Salaries and benefits	5,872,455	6,955,714
Materials, supplies, and repairs	2,156,336	2,089,629
General and administrative	562,173	517,503
Contractual services	1,197,400	1,095,261
Utilities	948,095	786,098
Depreciation	<u>7,751,024</u>	<u>7,542,959</u>
Total operating expenses	<u>18,676,791</u>	<u>19,175,509</u>
Operating income	<u>5,178,292</u>	<u>2,322,045</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Lease income	715,254	712,553
Taxes	(24,995)	(25,160)
Gain on disposal of assets	14,147	21,518
Interest income	63,905	147,041
Interest expense	(1,815,759)	(1,936,274)
Other nonoperating revenue	<u>104,853</u>	<u>79,103</u>
Total nonoperating revenue (expense)	<u>(942,595)</u>	<u>(1,001,219)</u>
Income before capital contributions	4,235,697	1,320,826
Capital Grants and Contributions	<u>17,103,932</u>	<u>12,575,906</u>
<b>CHANGE IN NET POSITION</b>	<u>21,339,629</u>	<u>13,896,732</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>145,650,881</u>	<u>131,754,149</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 166,990,510</u>	<u>\$ 145,650,881</u>

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

**NAPA SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 25,679,664	\$ 14,863,579
Payments to suppliers	(4,904,819)	(929,772)
Payments to employees	<u>(7,865,182)</u>	<u>(7,330,229)</u>
Net cash provided by operating activities	<u>12,909,663</u>	<u>6,603,578</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tax expense	(24,995)	(25,160)
Other nonoperating revenue	104,853	-
Insurance settlement proceeds	-	11,118
Dividends and rebates received	<u>-</u>	<u>12,312</u>
Net cash provided (used) by noncapital financing activities	<u>79,858</u>	<u>(1,730)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments of principal on long-term debt	(2,912,654)	(2,614,186)
Net proceeds from sale of capital assets	14,147	71,263
Net purchase of capital assets	(26,085,892)	(37,497,392)
Capital contributions	17,103,932	11,453,896
Interest paid	<u>(1,815,759)</u>	<u>(2,163,630)</u>
Net cash used by capital and related financing activities	<u>(13,696,226)</u>	<u>(30,750,049)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	63,905	147,041
Lease income	<u>715,254</u>	<u>2,823,261</u>
Net cash provided by investing activities	<u>779,159</u>	<u>2,970,302</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>72,454</b>	<b>(21,177,899)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>18,295,258</u>	<u>39,473,157</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 18,367,712</u>	<u>\$ 18,295,258</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</b>		
Cash and cash equivalents in current assets	\$ 16,367,611	\$ 16,292,856
Cash and cash equivalents in restricted assets	<u>2,000,101</u>	<u>2,002,402</u>
Total Cash and Cash Equivalents	<u>\$ 18,367,712</u>	<u>\$ 18,295,258</u>

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



**NAPA SANITATION DISTRICT  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 5,178,292	\$ 2,322,045
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,751,024	7,542,959
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	1,947,314	(6,684,805)
Other receivables	(35,667)	2,552
Inventory	24,124	3,305
Prepaid expenses	127,551	8,293
Net OPEB Asset	(240,890)	
Deferred outflows of resources	(2,295,899)	-
Increase (decrease) in liabilities:		
Accounts payable	1,417,508	3,343,725
Salaries and benefits payable	4,321	19,630
Unearned revenue	51,078	(22,972)
Deposits from others	(87,066)	71,250
Compensated absences payable	(866)	(2,404)
Deferred inflows of resources	(931,161)	-
Total adjustments	7,731,371	4,281,533
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 12,909,663</b>	<b>\$ 6,603,578</b>
<b>Noncash Investing, Capital, and Financing Activities:</b>		
Contribution of capital assets	\$ 1,874,993	\$ 1,122,010

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



## **NOTES TO BASIC FINANCIAL STATEMENTS**

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the District, and other necessary disclosure of pertinent matters relating to the financial position of the District. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.



**NAPA SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

The financial statements of the Napa Sanitation District (District) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

**A. Reporting Entity**

The District was organized as a County Sanitation District under the California Health and Safety Code in November 1945 to provide the necessary sewerage service to the City of Napa as well as adjacent areas of Napa County (the County). The District is responsible for wastewater collection, treatment, and disposal/reuse within most of the city limits of the City of Napa as well as adjacent areas of the County.

The District is not a component unit of the County. The District is legally separate and fiscally independent of the County. The District includes all activities (operations of its administrative staff and District officers) considered to be a part of the District. The District has one blended component unit, the Napa Sanitation District Public Financing Corporation (Financing Corporation), which has been included in the financial statements. The District has determined that no other agency meets the criteria, developed by the GASB in its issuance of Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, to be included as a component unit in the financial statements. In addition, the District is not aware of any entity that would be financially accountable for the District that would result in the District being considered a component unit of that entity.

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

The District accounts for its activities as a single enterprise fund, and the financial statements are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges for services. Operating expenses for the District include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

**C. Cash, Investments, and Equivalents**

The District has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The District's cash is pooled with the County's cash for investment purposes. It has been determined that the fair value of the County's cash in total compared to cost is not materially different, so that no adjustment has been reported on these financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Cash, Investments, and Equivalents (Continued)**

Cash, short-term investments, and restricted investments are stated at cost, which approximates current fair value.

For purposes of the statement of cash flows, the District considers all cash and investments with original maturities of three months or less when purchased and its equity in the County Treasurer's Investment Pool, which is payable on demand, as cash and cash equivalents.

**D. Receivables**

Receivables consist mostly of fees charged for sewer services and reclaimed water sales. Assessment receivables represent amounts that were on the County's property tax bills. Accounts receivable represents amounts billed directly by the District. Management believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

**E. Inventory**

Inventories consist of operating materials and supplies held for consumption, and are recognized as an expense at the time inventory is used. The District carries inventory at the lower of cost or market, on a first in, first out (FIFO) basis.

**F. Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

**G. Restricted Assets**

Amounts shown as restricted assets have been restricted by either bonds or by law or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Restricted assets include sewer connection fees. The resolution establishing the District for sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets.

**H. Capital Assets**

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their acquisition value. The District's policy is to include in construction-in-progress capitalized interest costs of related borrowings, net of interest earned on unspent proceeds of the related borrowings, as well as capitalized amortization of deferred charges and original issue discount.

The District 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of plant and equipment as follows:

	<u>Useful Life (Years)</u>
Buildings and improvements	5-50
Equipment	5-50
Donated sewer lines and other contributed assets	50

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Compensated Absences**

Earned vacation may be accumulated by all personnel up to a maximum of twice their annual vacation leave plus 30 hours on June 30th. Sick leave is accumulated without restriction as to maximum hours. District employees may not receive compensation for accumulated sick leave upon termination of employment, but can convert up to 48 hours of sick leave to personal leave after accumulated sick leave exceeds 500 hours. Any unused personal leave is forfeited on June 30th for non-management employees.

Management employees can accumulate up to a maximum of 96 hours by June 30th. Earned management leave time may be accumulated by management employees up to a maximum of twice their annual management leave time on June 30th.

The total estimated contingent liability for vested compensated absences at June 30, 2016, was \$433,134. The current portion of liability was estimated using prior year actual expense.

**J. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has one item, deferred pension contributions, which qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one item which qualifies for reporting in this category: pensions.

**L. Net Position**

The District's financial statements utilize a net position presentation. Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted.

- *Net investment in capital assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. For the District, this category represents restrictions for debt service and construction projects.
- *Unrestricted* – This category represents the net position of the District, not restricted for any project or other purpose.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Net Position (Continued)**

When both restricted and unrestricted net position is available, unrestricted resources are used only after the restricted resources are depleted.

**M. Use of Estimates**

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

**N. New Accounting Pronouncements – Current Year**

**Governmental Accounting Standards Board Statement No. 72**

GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015.

**Governmental Accounting Standards Board Statement No. 73**

GASB Statement No. 73, *Accounting for the Financial Reporting for Pension and Related Assets That are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, is effective for periods beginning after June 15, 2015, except those provisions that address employers and government nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

**Governmental Accounting Standards Board Statement No. 76**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is effective for periods beginning after June 15, 2015.

**O. New Accounting Pronouncements – Future Years**

**Governmental Accounting Standards Board Statement No. 74**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is effective for periods beginning after June 15, 2016.

**Governmental Accounting Standards Board Statement No. 75**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*, is effective for periods beginning after June 15, 2017.

**Governmental Accounting Standards Board Statement No. 77**

GASB Statement No. 77, *Tax Abatement Disclosures*, is effective for reporting periods beginning after December 15, 2015.

**Governmental Accounting Standards Board Statement No. 78**

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is effective for reporting periods beginning after December 15, 2015.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. New Accounting Pronouncements – Future Years (Continued)**

**Governmental Accounting Standards Board Statement No. 79**

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, is effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**Governmental Accounting Standards Board Statement No. 80**

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, is effective for reporting periods beginning after June 30, 2016. Earlier application is encouraged.

**Governmental Accounting Standards Board Statement No. 81**

GASB Statement No. 81, *Irrevocable Split-Interest Agreement*, is effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged.

**Governmental Accounting Standards Board Statement No. 82**

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments shown in the statement of net position represent the District's share of the County's cash and investment pool and restricted cash held with fiscal agents. The District voluntarily participates in the County's cash and investment pool. Interest earnings from this pool are transferred to the District on a quarterly basis based on the District's average daily balance. The County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's comprehensive annual financial report and may be obtained by contacting the County Auditor-Controller's Office at 1195 Third Street, Room B-10, Napa, California 94559.

The District has adopted the County's investment policy.

At June 30, 2016, total cash and investments held by the District were as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash held in County treasury	\$ 16,367,311	\$ -	\$ 16,367,311
Imprest cash	300	-	300
Investments with fiscal agent	-	1,989,523	1,989,523
Flexible spending	-	10,578	10,578
Total	<u>\$ 16,367,611</u>	<u>\$ 2,000,101</u>	<u>\$ 18,367,712</u>

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Restricted cash represents an amount restricted for debt service of \$1,989,523.

Cash with fiscal agent investments were as follows:

	<u>Interest Rates</u>	<u>Maturities</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Cash with Fiscal Agent Federated Mutual Funds	Variable	On Demand	\$ 1,989,523	\$ 1,989,523	\$ 1,989,523	–

Required disclosures for the District's deposit and investment risks for the cash held in the County Treasury at June 30, 2016, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	See disclosure above

**NOTE 3 – CAPITAL ASSETS**

Changes in the District's capital assets and accumulated depreciation for the year ended June 30, 2016, are summarized as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers and Adjustments</u>	<u>Balance June 30, 2016</u>
Capital assets, not being depreciated:					
Land	\$ 7,426,149	\$ -	\$ -	\$ -	\$ 7,426,149
Construction in progress	54,526,210	21,058,557	-	(20,526,776)	55,057,991
Total capital assets, not being depreciated	61,952,359	21,058,557	-	(20,526,776)	62,484,140
Capital assets, being depreciated:					
Buildings and Improvements	187,284,927	2,797,767	(330,722)	20,194,370	209,946,342
Equipment	6,560,327	393,784	(293,611)	332,406	6,992,906
Donated assets	51,499,139	1,874,993	-	-	53,374,132
Total capital assets, being depreciated	245,344,393	5,066,544	(624,333)	20,526,776	270,313,380
Less accumulated depreciation for:					
Buildings and Improvements	(71,542,492)	(6,247,356)	291,513	-	(77,498,335)
Equipment	(3,530,005)	(376,965)	293,611	-	(3,613,359)
Donated assets	(32,979,501)	(1,126,703)	-	-	(34,106,204)
Total accumulated depreciation	(108,051,998)	(7,751,024)	585,124	-	(115,217,898)
Total capital assets, being depreciated, net	137,292,395	(2,684,480)	(39,209)	20,526,776	155,095,482
Total capital assets, net	\$ 199,244,754	\$ 18,374,077	\$ (39,209)	\$ -	\$ 217,579,622

**NOTE 4 – LONG-TERM DEBT**

Individual issues of Bonds, Notes, and Certificates of Participation outstanding at June 30, 2016:

	<u>Maturity</u>	<u>Interest Rates<sup>1</sup></u>	<u>Annual Principal Installments</u>	<u>Original Issue Date</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2016</u>
2009 Certificates of Participation Series B Purpose: Wastewater Project	2028	3.00%-5.00%	\$1,005,000-\$1,900,000	10/15/2009	\$ 26,675,000	\$ 20,090,000
2012 Certificates of Participation Series A Purpose: Advance refund of outstanding 2009 Certificates of Participation Series A Improvements to Soscol Water Recycling Facility, Phase I Recycled Water Expansion, Influent Pump Station Replacement Expansion, Pond Aeration, and Dredge Install	2032	4.00%	\$1,120,000-\$2,605,000	12/13/2012	\$ 37,845,000	\$ 34,000,000
State Revolving Fund – (SRF) Purpose: Summit Avenue/Ora Drive	2022	2.50%	\$34,421-\$58,777	12/13/2003	\$ 901,376	\$ 382,529
State Revolving Fund – (SRF) Purpose: East Spring Street/Montecito Boulevard Sewer Improvement Project Phase I	2029	1.87%	\$58,145-\$81,096	4/1/2009	\$ 1,376,804	\$ 945,837
State Revolving Fund – (SRF) Purpose: East Spring Street/Montecito Boulevard Sewer Improvement Project Phase II	2029	1.85%	\$7,750-\$10,773	4/1/2009	\$ 182,869	\$ 125,785

<sup>1</sup> Imputed rates are used for the State Revolving Fund Loans for the East Spring Street Montecito Boulevard Sewer Improvement Project.

The following represents the changes in long-term liabilities during the year:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
State Revolving Funds Loan	\$ 1,575,865	\$ -	\$ (121,714)	\$ 1,454,151	\$ 124,297
2009 Certificates of Participation Series B	21,310,000	-	(1,220,000)	20,090,000	1,265,000
2012 Certificates of Participation Series A	35,390,000	-	(1,390,000)	34,000,000	1,445,000
Add: Unamortized Original Issue Premium	2,997,802	-	(180,940)	2,816,862	-
Compensated Absences	434,000	35,205	(36,071)	433,134	329,427
Net Pension Liability	9,290,707	2,903,187	(1,242,111)	10,951,783	-
<b>Total</b>	<b>\$ 70,998,374</b>	<b>\$ 2,938,392</b>	<b>\$ (4,190,836)</b>	<b>\$ 69,745,930</b>	<b>\$ 3,163,724</b>

As of June 30, 2016, annual debt service requirements of governmental activities to maturity are as follows:

<u>Fiscal Year(s)</u>	<u>Business-Type Activities</u>			
	<u>State Revolving Fund - (SRF) Loans</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 124,297	\$ 29,531	\$ 2,710,000	\$ 1,903,954
2018	126,935	26,892	2,810,000	1,806,404
2019	129,631	24,196	2,905,000	1,705,329
2020	132,386	21,441	3,005,000	1,600,039
2021	135,200	18,627	3,115,000	1,489,193
2022-2026	535,106	53,291	17,455,000	5,557,981
2027-2031	270,596	980	16,965,000	2,124,475
2032-2033	-	-	5,125,000	180,863
<b>Total</b>	<b>\$ 1,454,151</b>	<b>\$ 174,959</b>	<b>\$ 54,090,000</b>	<b>\$ 16,368,237</b>

## **NOTE 5 – PENSION PLANS**

### **A. Deferred Compensation Plan**

All permanent employees of the District are eligible to participate in a District sponsored deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested on behalf of the employees through an administrator in various instruments including mutual funds, money market funds, and others.

Prior to 1999, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts were (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the Plan), and subject to the claims of the District's general creditors.

Due to a change in Federal law concerning deferred compensation plans, the Board of Directors amended the Plan. In accordance with the new law, the District set up a trust to hold assets and earnings of the deferred compensation plan for the exclusive benefit of the participants.

*GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, requires governments to report Section 457 plans in the financial statements if the assets are held by a government unit in a trustee capacity or as an agent for individuals. Currently, the District has minimal administrative involvement and does not perform the investing function for the Plan and, therefore, is not considered to have fiduciary responsibility for the Plan or hold the Plan in a trustee capacity.

The County Auditor-Controller's office prepares the District's payroll and remits all required deposits to the third-party administrators.

### **B. Defined Benefit Pension Plan Description**

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employees' retirement system that acts as a common investment and administrative agent for participating public entities with the State of California. Copies of CalPERS' annual financial report may be obtained from its Executive Office – 400 P Street, Sacramento, California 95814.

**Plan Descriptions** – All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the CalPERS. Benefit provisions under the plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**NOTE 5 – PENSION PLANS (Continued)**

**B. Defined Benefit Pension Plan Description (Continued)**

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Tier 1	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2.7% @ 55	2% @62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 - 55	52 - 67
Monthly Benefits, as a Percentage of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates	8%	6.5%
Required Employer Contribution Rates	38.486%	6.7%

	Miscellaneous Tier 2	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit Formula	2.0% @ 55	2% @62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 - 63	52 - 67
Monthly Benefits, as a Percentage of Eligible Compensation	1.426% to 2.418%	1.0% to 2.5%
Required Employee Contribution Rates	7%	6.5%
Required Employer Contribution Rates	9.655%	6.7%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous Tier 1	Miscellaneous Tier 2
Contributions - Employer	\$ 736,530	\$ 15,519
Contributions - Employee (Paid by Employer)	299,303	51,104

**NOTE 5 – PENSION PLANS (Continued)**

**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Tier 1	\$ 10,899,377
Miscellaneous Tier 2	<u>52,406</u>
Total Net Pension Liability	<u>\$ 10,951,783</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015, was as follows:

	<u>Miscellaneous Tier 1</u>	<u>Miscellaneous Tier 2</u>
Proportion - June 30, 2014	0.37310%	0.00281%
Proportion - June 30, 2015	0.39729%	0.00191%
Change - Increase (Decrease)	0.02419%	-0.00090%

For the year ended June 30, 2016, the District recognized pension expense of \$158,619. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 1,513,722	\$ -
Change in Employer's Proportion and Differences between the Employer's Contributions and the Employer's Proportionate Share of Contributions	554,098	-
Change in Assumptions	-	772,275
Change in Proportion	1,388,562	-
Difference between Expected and Actual Experience	81,628	-
Net Differences between Projected and Actual Earnings on Plan Investments	<u>-</u>	<u>387,151</u>
Total	<u>\$ 3,538,010</u>	<u>\$ 1,159,426</u>

**NOTE 5 – PENSION PLANS (Continued)**

**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

\$1,513,722 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		
2017	\$	224,589
2018		224,589
2019		224,589
2020		191,096
2021		-
Thereafter		-
Total	\$	<u>864,862</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Tier 1		Miscellaneous Tier 2
Valuation Date	June 30, 2014		June 30, 2014
Measurement Date	June 30, 2015		June 30, 2015
Actuarial Cost Method	Entry Age Normal		Entry Age Normal
Actuarial Assumptions:			
Discount Rate	7.65		7.65
Inflation	2.75%		2.75%
Payroll Growth	3.00%		3.00%
Projected Salary Increases	3.0% - 4.6%	(1)	3.0% - 4.6% (1)
Investment Rate of Return	7.50%	(2)	7.50% (2)
Mortality	Based on 2014 experience report		Based on 2014 experience report

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment expenses, including inflation.

The underlying actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65 percent for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

**NOTE 5 – PENSION PLANS (Continued)**

**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.5 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require District Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

<sup>(a)</sup> An expected inflation of 2.5% used for this period.

<sup>(b)</sup> An expected inflation of 3.0% used for this period.



**NOTE 5 – PENSION PLANS (Continued)**

**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
Miscellaneous Tier 1	\$ 18,279,347	\$ 10,899,377	\$ 4,806,715
Miscellaneous Tier 2	\$ 87,888	\$ 52,406	\$ 23,111

**Pension Plan Fiduciary Net Position** – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**D. Payable to the Pension Plan**

At June 30, 2016, the District reported a payable of \$35,870 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description:** The District offers medical, vision, and life insurance premium benefits to eligible retirees. The contribution requirements of the plan members and the District are established and may be amended by the District.

Under the current health plan, the District pays for coverage of the retiree plus eligible dependents. To be eligible, the retiree must retire directly from the District at age 50 or later and have a minimum of five years of service. Employees that are hired on and after September 1, 2004, have reduced benefits. Employees hired after September 4, 2009, have reduced pensions so they are predicted to retire later.

As of June 30, 2016, the District had 38 retirees receiving benefits at a cost of approximately \$336,800.

**Annual OPEB Cost and Net OPEB Obligation:** The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District's ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the District's annual OPEB cost for the year, \$615,193 or 164.4% of the actuarially required contributions, to the retiree healthcare program. Of this contribution, \$324,743 is attributable to health benefits paid to retirees outside of California Employers' Retiree Benefit Trust (CERBT), \$290,450 was current year cash contribution made towards the annual required contribution, and no balance left outstanding related to the net OPEB obligation.

**NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

Annual required contribution	\$ 374,303
Interest on net OPEB obligation	<u>-</u>
Total Annual OPEB Cost	374,303
Contributions made	<u>615,193</u>
Change in Net OPEB Obligation (Asset)	(240,890)
Net OPEB Obligation (Asset) - Beginning of Year	<u>-</u>
Net OPEB Obligation (Asset) - End of Year	<u>\$ (240,890)</u>

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan (as described in the funding policy above), and the Net OPEB Obligation for the past three fiscal years are shown below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2016	\$ 374,303	\$ 615,193	164.4%	\$ (240,890)
June 30, 2015	548,300	548,300	100.0%	-
June 30, 2014	532,300	532,300	100.0%	-

**Funded Status and Funding Progress**

The funded status of the plan, based on an actuarial valuation as of July 1, 2015, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 6,019,640
Actuarial value of plan assets	<u>2,509,578</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,510,062</u>
Funded ratio (actuarial value of plan assets/AAL)	41.69%
Covered payroll	\$ 5,073,680
UAAL as a percentage of covered payroll	69.18%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Funded Status and Funding Progress (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.50% investment rate of return, an inflation rate of 2.75% per year, an increase in covered payroll at the rate of 3.00% per year with projected medical premium increases for 2013 based on actual premiums and for 2014 of 7.5%. The OPEB plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years on a closed basis. The remaining amortization period at June 30, 2016, was 23 years.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

Pursuant to an agreement between the County and the District, the County provides Management Information Services and Accounting Services to the District. During the year ended June 30, 2016, the District paid the County the following amounts for these services:

Information Technology Services	\$	342,096
Accounting Services		30,307

**NOTE 8 – CAPITAL CONTRIBUTIONS**

A portion of the construction costs for sewer and recycled water lines completed by the District were paid for by outside parties. The donated portion of these assets is recorded as capital contributions and is reported at estimated fair value.

**NOTE 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The District joined together with other entities to form the Special District Risk Management Authority (SDRMA), a public risk entity pool currently operating as a common risk management and insurance program for 442 member entities. The purpose of SDRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. A board composed of one representative from each member agency governs SDRMA. The board controls the operations of SDRMA including selection of management and approval for operating budgets, independent of any influence by member entities. A copy of the audit report may be obtained from SDRMA at 1112 I Street, Suite 300, Sacramento, California 95814.

The District is also a member of the California Sanitation Risk Management Authority (CSRMA) a public risk sharing pool. The District's workers compensation claims are handled by CSRMA. A board composed of one representative from each member agency governs CSRMA. The board controls the operations of CSRMA including selection of management and approval for operating budgets, independent of any influence by member entities. A copy of the audit report may be obtained from CSRMA at its web site at [www.csrma.org](http://www.csrma.org).

In addition to SDRMA, the District also carries commercial insurance coverage for pollution legal liability and property damage. Settled claims for SDRMA or commercial insurance have not exceeded coverage in any of the past three fiscal years.

**NOTE 9 – RISK MANAGEMENT (Continued)**

The following is a summary of the insurance policies carried by the District for the fiscal year ended June 30, 2016:

<b>Comprehensive Business Policy - SDRMA</b>	
General property	\$ 1,000,000,000
Special property coverage	Various
General liability	10,000,000
Boiler and machinery	100,000,000
Auto, personal injury, and property damage liability	10,000,000
Uninsured/underinsured motorists	1,000,000
Errors and omissions liability	10,000,000
Employment practices liability	10,000,000
Employee benefits liability	10,000,000
Public employees/officials dishonesty blanket coverage	1,000,000
Public officials personal liability	500,000
<b>Workers' Compensation Program</b>	
CSRMA - Initial workers' compensation	750,000
National Union Fire Co. of Pittsburg, PA - Excess workers' compensation	Statutory
National Union Fire Co. of Pittsburg, PA - Employer's liability	1,000,000
<b>Pollution Legal Liability</b>	
Indian Harbor Insurance Co.	5,000,000

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 18, 2016, which is the date the financial statements were issued. There are no reportable events through this date.

**REQUIRED SUPPLEMENTARY INFORMATION**



**NAPA SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

**SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT BENEFIT PLAN**

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll on the actuarial valuation dates:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2015	\$ 2,509,600	\$ 6,019,600	\$ 4,270,900	41.69%	\$ 5,073,680	84.18%
7/1/2013	1,792,000	5,892,900	4,100,900	30.41%	4,763,400	86.09%
7/1/2011	640,400	5,772,400	5,132,000	11.09%	4,133,700	124.15%
1/1/2010	-	4,844,800	4,844,800	0.00%	4,050,300	119.62%

**NAPA SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	Miscellaneous Tier 1 <u>June 30, 2015</u>	Miscellaneous Tier 2 <u>June 30, 2015</u>
Proportion of the Net Pension Liability	0.39729%	0.00191%
Proportionate Share of the Net Position Liability	\$ 10,899,377	\$ 52,406
Covered-Employee Payroll	\$ 3,797,575	\$ 730,056
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	287.01%	7.18%
Plan's Fiduciary Net Position	\$ 27,268,529	\$ 574,875
Plan's Total Pension Liability	\$ 38,168,103	\$ 627,281
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.44%	91.65%
	Miscellaneous Tier 1 <u>June 30, 2014</u>	Miscellaneous Tier 2 <u>June 30, 2014</u>
Proportion of the Net Pension Liability	0.37310%	0.00281%
Proportionate Share of the Net Position Liability	\$ 9,221,174	\$ 69,533
Covered-Employee Payroll	\$ 3,484,915	\$ 792,132
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	264.60%	8.78%
Plan's Fiduciary Net Position	\$ 29,362,086	\$ 340,181
Plan's Total Pension Liability	\$ 38,583,260	\$ 409,714
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.10%	83.03%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation. Additional years will be presented as they become available.



**NAPA SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2016**

**SCHEDULE OF CONTRIBUTIONS**

	<u>Miscellaneous Tier 1 June 30, 2015</u>	<u>Miscellaneous Tier 2 June 30, 2015</u>
Actuarially Determined Contribution	\$ 1,442,136	\$ 71,586
Contributions in Relation to the Actuarially Determined Contribution	<u>1,442,136</u>	<u>71,586</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 3,797,575	\$ 730,056
Contributions as a Percentage of Covered- Employee Payroll	37.98%	9.81%
	<u>Miscellaneous Tier 1 June 30, 2014</u>	<u>Miscellaneous Tier 2 June 30, 2014</u>
Actuarially Determined Contribution	\$ 1,232,773	\$ 93,771
Contributions in Relation to the Actuarially Determined Contribution	<u>1,232,773</u>	<u>93,771</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 3,484,915	\$ 792,132
Contributions as a Percentage of Covered- Employee Payroll	35.37%	11.84%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation. Additional years will be presented as they become available.





**STATISTICAL SECTION**



**NAPA SANITATION DISTRICT  
STATISTICAL SECTION  
UNAUDITED**

This section of the Napa Sanitation District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

**Financial Trend Information**

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Net Position by Component  
Changes in Net Position by Component

**Revenue Capacity Information**

These schedules contain information to help the reader assess the factors affecting the District's ability to generate its largest single own-source revenue: sewer service charges.

Sewer Service Revenue  
Sewer Service Rate  
Capacity Charges  
Principal Revenue Payors

**Debt Capacity Information**

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Debt Service Coverage  
Total Outstanding Debt

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

Demographic and Economic Statistics  
Principal Employers in Napa County

**Operating Information**

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Number of Full-Time Equivalent District Employees by Department  
Historic Sewer System Service Connections and Equivalent Dwelling Units (EDUs)  
Historic Average Daily Average Influent Flow at Wastewater Treatment Plant  
Historic Annual Recycled Water Sales  
Operating and Capital Indicators

**NAPA SANITATION DISTRICT  
NET POSITION BY COMPONENT  
PAST TEN FISCAL YEARS  
(In Thousands)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Assets</b>										
Current and other assets	\$ 25,221	\$ 26,971	\$ 43,534	\$ 51,357	\$ 22,414	\$ 23,239	\$ 23,163	\$ 20,801	\$ 20,523	\$ 24,065
Capital assets	217,580	199,245	168,218	155,508	149,916	148,192	147,829	150,123	149,064	145,408
<b>Total assets</b>	<b>242,801</b>	<b>226,216</b>	<b>211,752</b>	<b>206,865</b>	<b>172,330</b>	<b>171,431</b>	<b>170,992</b>	<b>170,924</b>	<b>169,587</b>	<b>169,473</b>
<b>Deferred Outflows of Resources</b>										
Deferred employer pension contributions	3,538	1,242	-	-	-	-	-	-	-	-
<b>Liabilities</b>										
Current and other liabilities	11,607	11,744	7,863	6,031	4,601	4,250	3,441	3,146	3,094	3,696
Long-term liabilities	66,582	67,972	61,603	64,404	33,751	35,831	37,744	37,097	37,099	38,281
<b>Total liabilities</b>	<b>78,189</b>	<b>79,716</b>	<b>69,466</b>	<b>70,435</b>	<b>38,352</b>	<b>40,081</b>	<b>41,185</b>	<b>40,243</b>	<b>40,193</b>	<b>41,977</b>
<b>Deferred Inflows of Resources</b>										
Pension	1,159	2,091	-	-	-	-	-	-	-	-
<b>Net Position</b>										
Net investment in capital assets	161,208	139,960	115,847	115,038	117,505	114,274	112,467	115,483	114,093	109,339
Restricted for debt service and construction projects	-	-	-	-	-	3,388	3,014	4,114	9,957	8,997
Unrestricted	5,783	5,691	26,438	21,393	16,474	13,689	14,326	11,084	5,344	9,161
<b>Total net position</b>	<b>\$ 166,991</b>	<b>\$ 145,651</b>	<b>\$ 142,285</b>	<b>\$ 136,431</b>	<b>\$ 133,979</b>	<b>\$ 131,351</b>	<b>\$ 129,807</b>	<b>\$ 130,681</b>	<b>\$ 129,394</b>	<b>\$ 127,497</b>

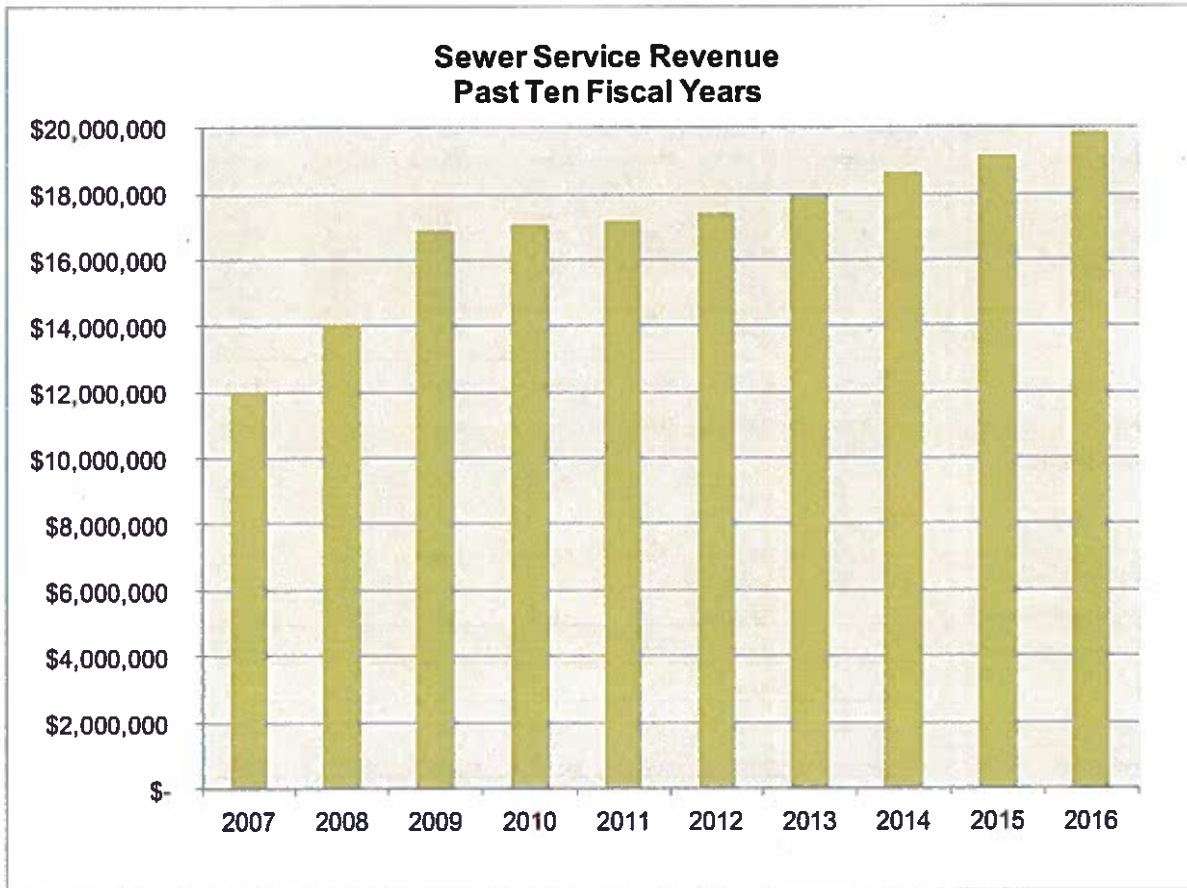
Source: Napa Sanitation District Basic Financial Statements

**NAPA SANITATION DISTRICT  
CHANGES IN NET POSITION BY COMPONENT  
PAST TEN FISCAL YEARS  
(In Thousands)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Operating Revenues</b>										
Sewer charges	\$ 19,887	\$ 19,191	\$ 18,665	\$ 17,985	\$ 17,400	\$ 17,173	\$ 17,089	\$ 16,881	\$ 14,051	\$ 12,003
Capacity charges	3,140	1,568	1,774	1,517	1,426	1,339	592	821	2,868	2,638
Other charges for services	828	739	688	684	689	531	530	220	296	284
<b>Total operating revenues</b>	<b>23,855</b>	<b>21,498</b>	<b>21,127</b>	<b>20,186</b>	<b>19,515</b>	<b>19,043</b>	<b>18,211</b>	<b>17,922</b>	<b>17,215</b>	<b>14,925</b>
<b>Operating Expenses</b>										
Insurance	189	188	192	185	211	199	196	229	238	245
Salaries and benefits	5,872	6,956	6,967	7,034	6,503	6,422	6,333	6,124	5,482	5,044
Materials, supplies, and repairs	2,156	2,090	2,118	1,978	2,037	1,321	1,288	1,413	1,811	1,233
General and administrative	562	518	513	832	424	408	416	322	378	399
Contractual services	1,198	1,095	1,131	1,229	1,329	1,751	1,823	1,817	1,457	1,458
Utilities	948	786	1,002	769	904	834	925	1,047	1,197	927
Depreciation	7,751	7,543	7,302	7,082	7,045	6,653	6,519	6,186	5,357	5,040
Amortization	-	-	-	43	33	33	394	15	15	15
<b>Total operating expenses</b>	<b>18,676</b>	<b>19,176</b>	<b>19,225</b>	<b>18,952</b>	<b>18,486</b>	<b>17,621</b>	<b>17,894</b>	<b>17,153</b>	<b>15,935</b>	<b>14,361</b>
<b>Operating income (loss)</b>	<b>5,179</b>	<b>2,322</b>	<b>1,902</b>	<b>1,214</b>	<b>1,029</b>	<b>1,422</b>	<b>317</b>	<b>769</b>	<b>1,280</b>	<b>584</b>
<b>Nonoperating Revenue (Expense)</b>										
Lease income	715	713	729	1,488	130	168	301	528	164	70
Taxes	(25)	(25)	(24)	(24)	(24)	(23)	(24)	(31)	(29)	(26)
Gain (loss) on disposal of assets	14	21	2,848	-	14	96	(61)	(80)	(10)	17
Interest income	64	147	248	200	113	144	183	459	886	1,058
Interest expense	(1,816)	(1,936)	(2,116)	(2,265)	(1,080)	(1,127)	(1,820)	(1,812)	(1,755)	(1,913)
Other nonoperating revenue (expense)	105	79	170	319	-	160	133	991	341	837
<b>Total nonoperating revenue (expense)</b>	<b>(943)</b>	<b>(1,001)</b>	<b>1,853</b>	<b>(282)</b>	<b>(847)</b>	<b>(582)</b>	<b>(1,288)</b>	<b>55</b>	<b>(403)</b>	<b>43</b>
<b>Income (loss) before capital contributions</b>	<b>4,236</b>	<b>1,321</b>	<b>3,755</b>	<b>932</b>	<b>182</b>	<b>840</b>	<b>(971)</b>	<b>824</b>	<b>877</b>	<b>607</b>
<b>Capital Contributions</b>	<b>17,104</b>	<b>12,578</b>	<b>2,852</b>	<b>1,892</b>	<b>2,447</b>	<b>703</b>	<b>98</b>	<b>463</b>	<b>1,019</b>	<b>785</b>
<b>Change in Net Position</b>	<b>21,340</b>	<b>13,897</b>	<b>6,607</b>	<b>2,824</b>	<b>2,629</b>	<b>1,543</b>	<b>(873)</b>	<b>1,287</b>	<b>1,896</b>	<b>1,392</b>
<b>Net Position, Beginning of Year</b>	<b>145,651</b>	<b>131,754</b>	<b>135,678</b>	<b>133,607</b>	<b>131,350</b>	<b>129,807</b>	<b>130,681</b>	<b>129,394</b>	<b>127,498</b>	<b>126,106</b>
<b>Net Position, End of Year</b>	<b>\$ 166,991</b>	<b>\$ 145,651</b>	<b>\$ 142,285</b>	<b>\$ 136,431</b>	<b>\$ 133,979</b>	<b>\$ 131,350</b>	<b>\$ 129,808</b>	<b>\$ 130,681</b>	<b>\$ 129,394</b>	<b>\$ 127,498</b>

Source: Napa Sanitation District Basic Financial Statements

**NAPA SANITATION DISTRICT  
SEWER SERVICE REVENUE  
PAST TEN FISCAL YEARS**



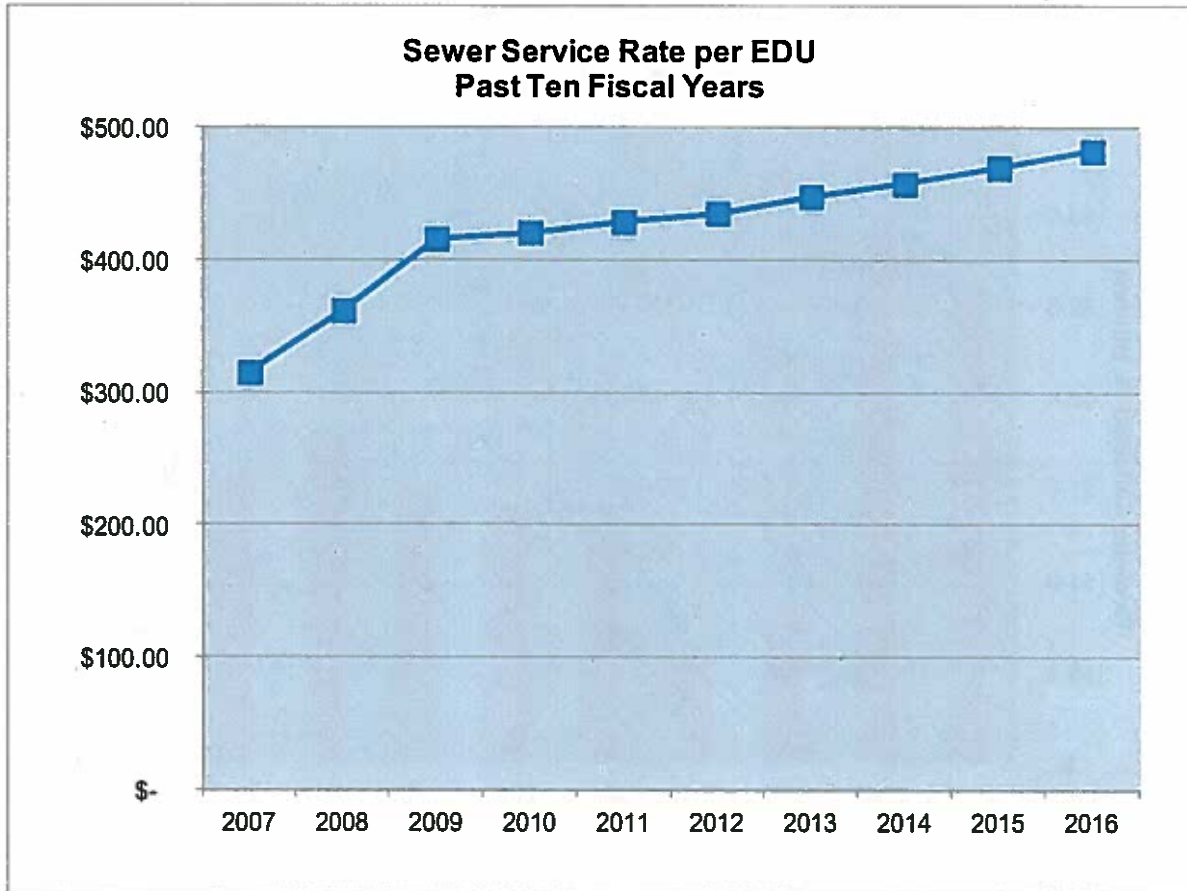
**Historic Sewer Service Revenues**

<u>Fiscal Year Ended June 30</u>	<u>Sewer Service Revenues</u>	<u>Percentage Change</u>
2007	\$ 12,003,390	15.2%
2008	14,051,455	17.1%
2009	16,880,763	20.1%
2010	17,089,263	1.2%
2011	17,173,259	0.5%
2012	17,400,473	1.3%
2013	17,965,150	3.2%
2014	18,665,200	3.9%
2015	19,190,535	2.8%
2016	19,887,172	3.6%

Source: Napa Sanitation District Basic Financial Statements



**NAPA SANITATION DISTRICT  
SEWER SERVICE RATE PER EQUIVALENT DWELLING UNIT (EDU)  
PAST TEN FISCAL YEARS**



**Historic Sewer Service Rates**

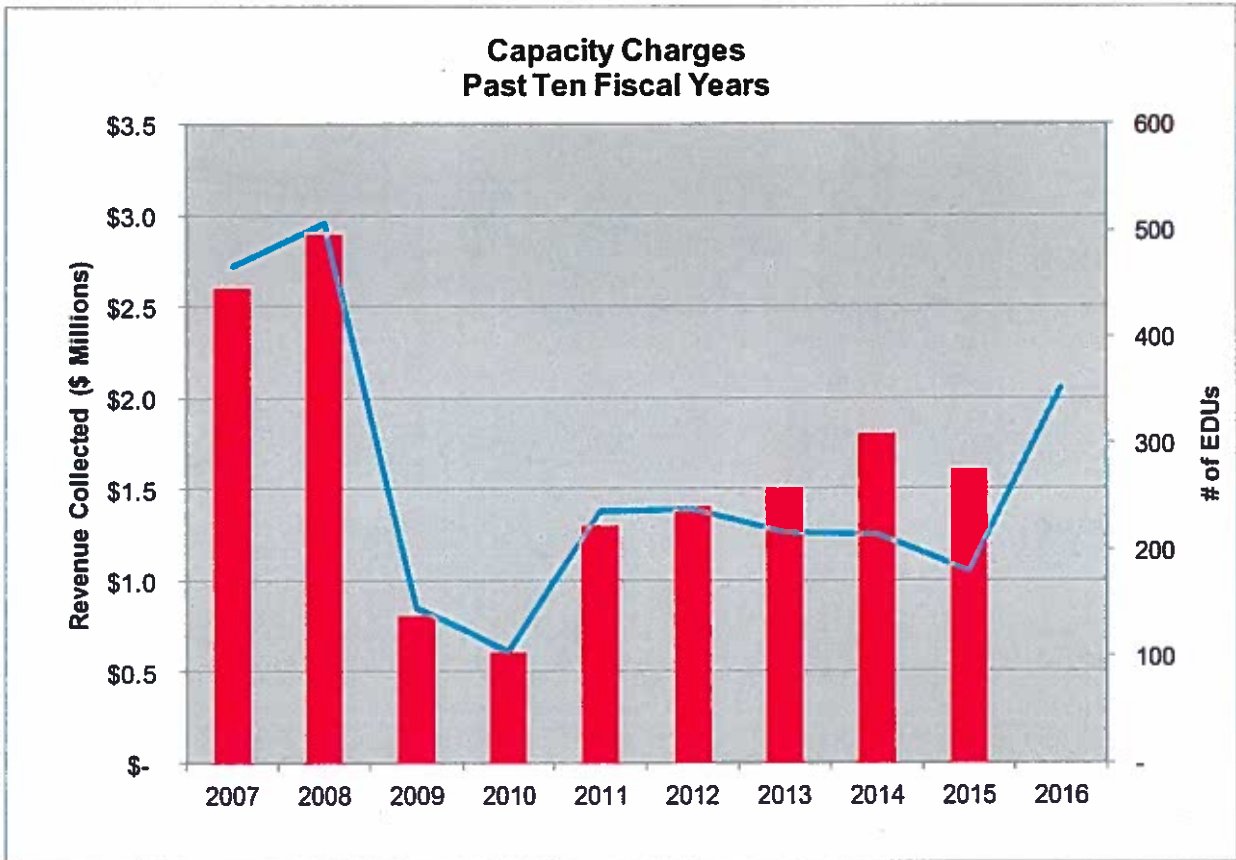
<b>Fiscal Year Ended June 30</b>	<b>Sewer Service Rates</b>	<b>Percentage Change</b>
2007	\$ 315.00	15.0%
2008	362.00	15.0%
2009	416.00	15.0%
2010	421.00	1.2%
2011	429.00	1.9%
2012	435.44	1.5%
2013	448.06	2.9%
2014	457.92	2.2%
2015	469.82	2.6%
2016	482.50	2.7%

**Note:**

In 2006, the District Board of Directors approved a three year phased-in increase to the sewer service rates. For FY 2007, 2008, and 2009, the District increased rates 15% per year. The rate thereafter increases with inflation.

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT  
CAPACITY CHARGES  
PAST TEN FISCAL YEARS**



**Historic Capacity Charges**

<u>Fiscal Year Ended June 30</u>	<u>Capacity Charges (per EDU)</u>	<u>Total Collected</u>	<u>Number of EDUs</u>
2007	\$ 5,660	\$ 2,637,594	466.0
2008	5,660	2,867,637	506.6
2009	5,660	820,914	145.0
2010	5,660	591,859	104.6
2011	5,660	1,339,102	236.6
2012	6,000	1,425,486	237.6
2013	7,000	1,516,677	216.7
2014	8,300	1,774,081	213.7
2015	8,723	1,568,328	179.8
2016	8,950	3,139,503	350.8

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT  
PRINCIPAL REVENUE PAYORS  
CURRENT FISCAL YEAR AND TEN YEARS AGO**

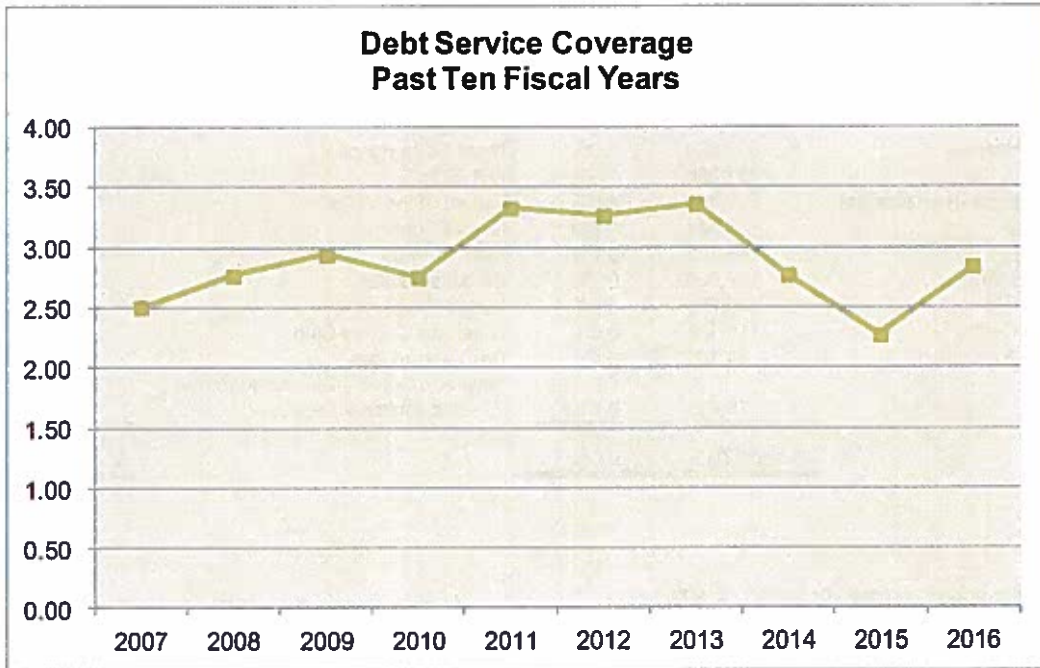
FY 2015-16			FY 2005-06		
Payor	Total Paid	Percentage of Revenue Collected	Payor	Total Paid	Percentage of Revenue Collected
Napa State Hospital	\$ 659,620	3.3%	Napa State Hospital	\$ 249,784	2.4%
NVUSD	251,286	1.3%	NVUSD	158,646	1.5%
Meritage Resorts (Restaurants)	200,865	1.0%	Queen of the Valley	88,255	0.8%
Marriott Hotel	175,678	0.9%	Napa County	86,447	0.8%
Napa County	143,158	0.7%	Marriott Hotel	84,447	0.8%
Queen of the Valley	137,030	0.7%	Embassy Suites	77,515	0.7%
Embassy Suites	126,753	0.6%	Long's Drugs	53,677	0.5%
Kaiser Data Center	116,138	0.6%	Silverado Country Club	49,649	0.5%
Napa Valley Exposition	84,100	0.4%	Dey Laboratories	41,182	0.4%
Avia Hotel	75,415	0.4%	Silverado Country Club Laundromat / Frank's Janitorial Service	38,031	0.4%
<b>Total</b>	<b>\$ 1,970,043</b>	<b>9.9%</b>		<b>\$ 927,633</b>	<b>8.8%</b>

**Notes:**

- (1) Total Revenue Collected 2015-2016: \$19,887,172
- (2) Total Revenue Collected 2005-2006: \$10,421,825

Source: Napa Sanitation District

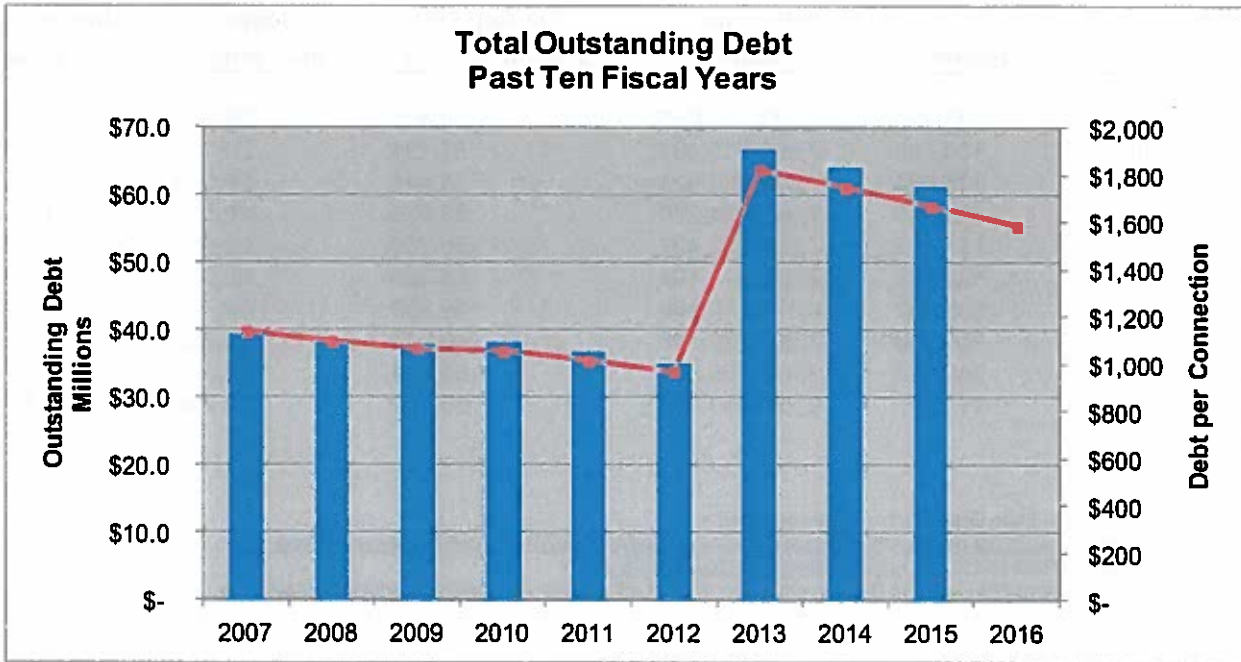
**NAPA SANITATION DISTRICT  
DEBT SERVICE COVERAGE  
PAST TEN FISCAL YEARS**



<b>Fiscal Year Ended June 30</b>	<b>Gross Revenues</b>	<b>Operating Expenses</b>	<b>Net Revenues</b>	<b>Debt Service</b>	<b>Debt Service Coverage Ratio</b>
2007	\$ 16,880,553	\$ 9,320,195	\$ 7,560,358	\$ 3,017,855	2.51
2008	18,567,927	10,563,472	8,004,455	2,896,708	2.76
2009	19,900,016	10,983,408	8,916,608	3,033,147	2.94
2010	18,828,062	11,006,100	7,821,962	2,844,162	2.75
2011	19,612,634	10,935,200	8,677,434	2,609,220	3.33
2012	19,772,294	11,407,627	8,364,667	2,563,476	3.26
2013	22,174,185	11,827,078	10,347,107	3,079,427	3.36
2014	25,121,004	11,922,847	13,198,157	4,767,542	2.77
2015	22,457,769	11,632,550	10,825,219	4,772,956	2.27
2016	24,753,242	11,191,710	13,561,532	4,773,956	2.84

Source: Napa Sanitation District.

**NAPA SANITATION DISTRICT  
TOTAL OUTSTANDING DEBT  
PAST TEN FISCAL YEARS**



Fiscal Year Ended June 30	Type of Debt			Total Outstanding Debt	Total Connections	Debt per Connection
	Notes Payable	Certificates of Participation	SRFs			
2007	\$ 21,410	\$ 38,482,362	\$ 786,518	\$39,290,290	34,675	\$ 1,133
2008	-	37,391,953	745,935	38,137,888	34,848	1,094
2009	-	36,256,544	1,537,383	37,793,927	35,461	1,066
2010	-	36,000,069	2,147,571	38,147,640	36,251	1,052
2011	-	34,639,013	2,037,972	36,676,985	36,289	1,011
2012	-	33,242,956	1,926,053	35,169,009	36,326	968
2013	-	64,779,680	1,811,763	66,591,443	36,552	1,822
2014	-	62,373,741	1,695,051	64,068,792	36,722	1,745
2015	-	59,697,802	1,575,865	61,273,667	36,791	1,665
2016	-	56,906,862	1,454,151	58,361,013	36,901	1,582

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
PAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Population<sup>1</sup></b>	<b>Personal Income<sup>2</sup></b>	<b>Per Capital Personal Income<sup>3</sup></b>	<b>School Enrollment<sup>4</sup></b>	<b>Unemployment Rate<sup>5</sup></b>
2007	133,155	\$ 7,777,184,085	\$ 58,407	20,087	3.8%
2008	134,786	7,699,515,464	57,124	20,108	4.7%
2009	135,664	7,385,683,824	54,441	20,370	8.2%
2010	136,798	7,368,624,270	53,865	20,515	9.8%
2011	137,653	7,620,332,427	55,359	20,582	9.6%
2012	138,019	8,050,096,194	58,326	20,595	8.2%
2013	138,932	8,173,369,560	58,830	20,725	6.6%
2014	140,348	8,501,720,448	60,576	20,868	5.1%
2015	140,984	8,947,408,576	63,464	21,002	4.1%
2016	141,633	9,223,990,758	65,126	20,289	4.3%

**Notes:**

- <sup>1-3</sup> California State Department of Transportation – [http://www.dot.ca.gov/hq/tpp/offices/eab/socio\\_economic\\_files/2015/Final%20Forecasts/Napa.pdf](http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic_files/2015/Final%20Forecasts/Napa.pdf)
- <sup>4</sup> EdData Partnership – <http://www.ed-data.org/county/Napa>
- <sup>5</sup> Employment Development Department, Labor Market Information – [www.labormarketinfo.edd.ca.gov](http://www.labormarketinfo.edd.ca.gov)

**Source:** County of Napa Comprehensive Annual Financial Report for FY 2015/16

**NAPA SANITATION DISTRICT  
PRINCIPAL EMPLOYERS IN NAPA COUNTY  
CURRENT FISCAL YEAR AND TEN YEARS AGO**

FY 2015-16			FY 2005-06		
Employer	Employees	Percentage of Total County Employees <sup>1</sup>	Employer	Employees	Percentage of Total County Employees <sup>2</sup>
Napa State Hospital	2,303	3.14%	Napa State Hospital	3,000	2.25%
County of Napa	1,433	1.95%	Napa Vally Unified School District	1,650	1.24%
St. Helena Hospital - Napa Valley	1,391	1.90%	County of Napa	1,337	1.00%
Napa Valley Unified School District	1,260	1.72%	Queen of the Valley Hospital	1,300	0.98%
Treasury Wine Estates	1,119	1.52%	Veterans' Home of California	1,100	0.83%
Queen of the Valley Hospital	1,100	1.50%	St. Helena Hospital	991	0.74%
Trinchero Family Estates	1,015	1.38%	Cultured Stone	800	0.60%
Veterans' Home of California	1,000	1.36%	Napa Valley Community College	800	0.60%
Wal-Mart - Napa and American Canyon	642	0.87%	Dey Laboratories, Inc.	670	0.50%
City of Napa	458	0.62%	Silverado Country Club	600	0.45%
<b>Total</b>	<b>11,721</b>	<b>15.96%</b>		<b>12,248</b>	<b>9.19%</b>

**Notes:**

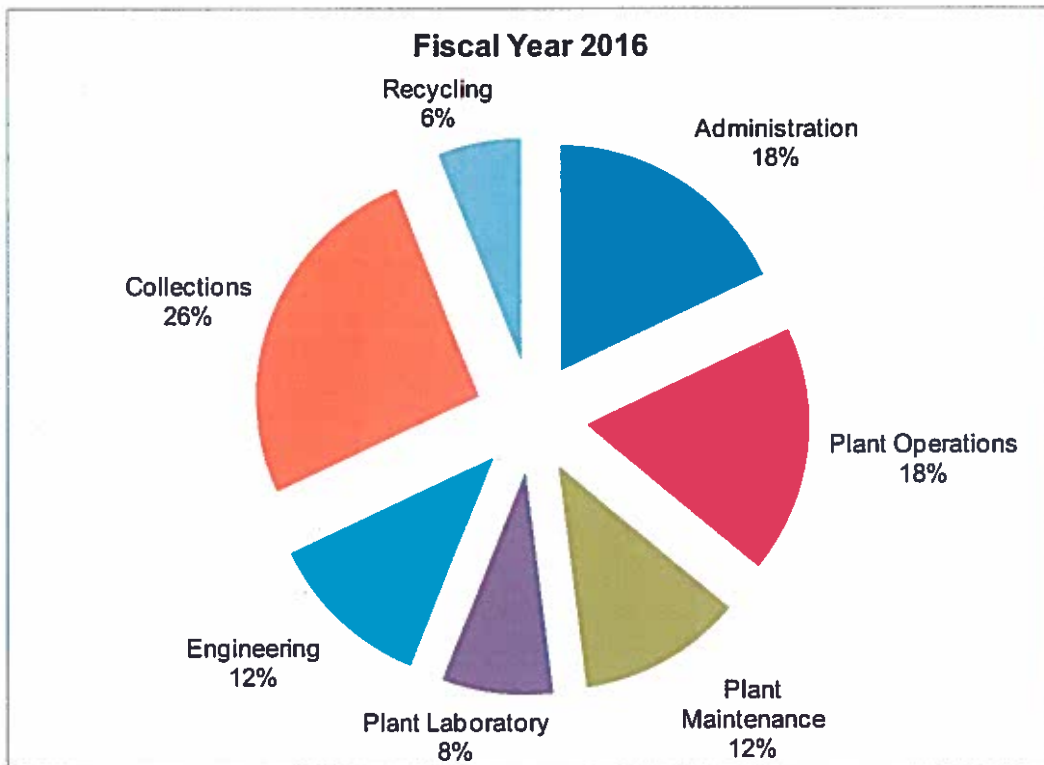
- <sup>1</sup> Total Napa County Employment 2015-2016: 73,400
- <sup>2</sup> Total Napa County Employment 2005-2006: 133,300
- <sup>3-4</sup> Prior year figures - current year data not available at time of report

**Sources:**

- County of Napa Comprehensive Annual Financial Report for FY 2015/16
- Napa Chamber of Commerce
- State of California Employment Development Department – <http://www.calmis.ca.gov/htmlfile/county/napa.htm>
- Direct phone survey Napa County Auditor-Controller's Office

**NAPA SANITATION DISTRICT  
NUMBER OF FULL-TIME EQUIVALENT DISTRICT  
EMPLOYEES BY DEPARTMENT  
FOR THE PAST TEN FISCAL YEARS**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	10	10	9	10	8	9	9	9	8	9
Plant Operations	10	9	9	9	9	8	9	9	9	9
Plant Maintenance	3	4	4	5	5	5	5	5	5	6
Plant Laboratory	3	4	4	4	4	4	4	4	4	4
Engineering	6	5	5	6	6	6	6	6	5	6
Collections	12	13	12	13	13	13	13	13	13	13
Recycling	5	3	4	4	4	4	4	3	3	3
<b>Total Employees</b>	<b>49</b>	<b>48</b>	<b>47</b>	<b>51</b>	<b>49</b>	<b>49</b>	<b>50</b>	<b>49</b>	<b>47</b>	<b>50</b>
<b>Approved FTEs</b>	<b>49</b>	<b>49</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>

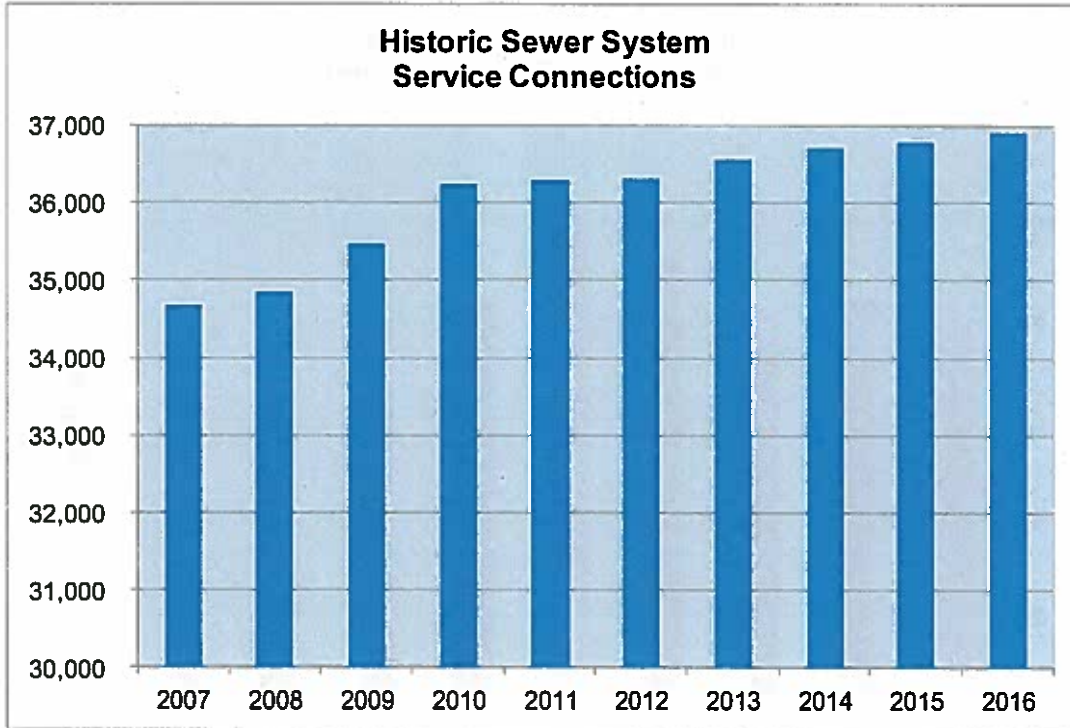


**Note:** Administration includes General Manager/Assistant General Manager, Administrative Staff, and Safety/Training/Fleet Officer

**Source:** Napa Sanitation District



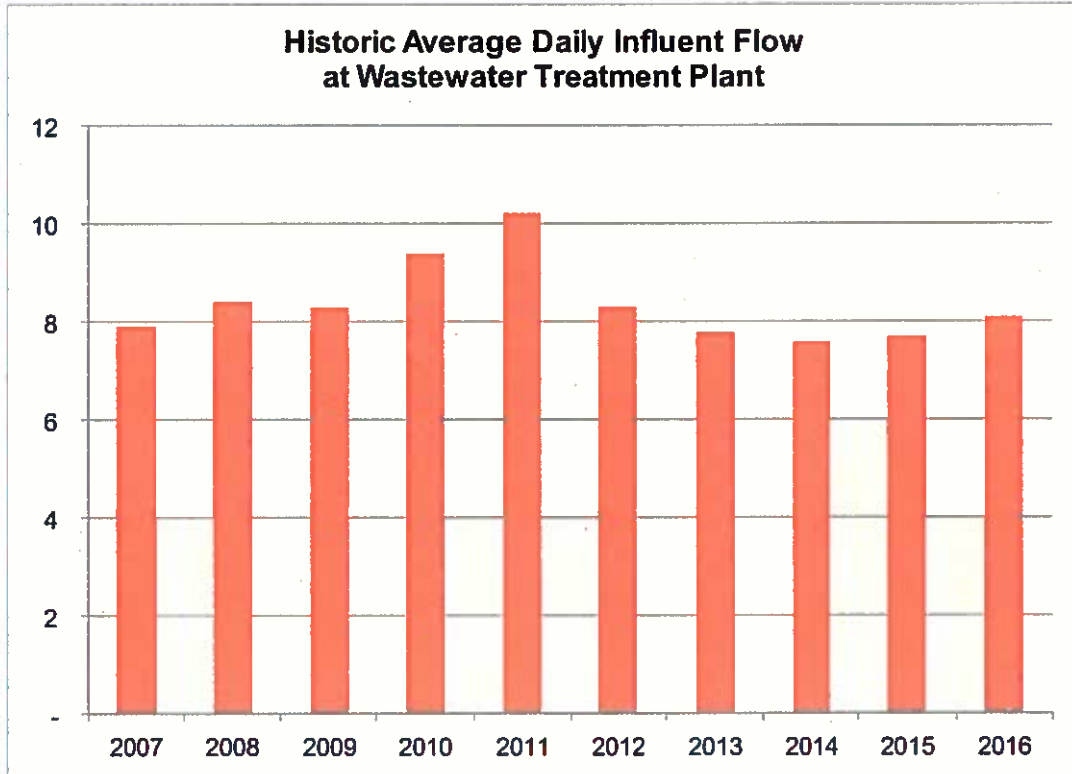
**NAPA SANITATION DISTRICT  
 HISTORIC SEWER SYSTEM SERVICE CONNECTIONS  
 AND EQUIVALENT DWELLING UNITS (EDUs)  
 PAST TEN FISCAL YEARS**



<b>Fiscal Year Ended June 30</b>	<b>Single Family</b>	<b>Multifamily</b>	<b>Commercial/ Industrial</b>	<b>Total Connections</b>	<b>Total EDUs</b>
2007	22,598	8,066	4,011	34,675	36,305
2008	22,721	8,106	4,021	34,848	39,336
2009	23,085	8,193	4,183	35,461	40,705
2010	23,304	8,526	4,421	36,251	40,801
2011	23,368	8,482	4,439	36,289	40,254
2012	23,412	8,478	4,436	36,326	40,142
2013	23,486	8,539	4,527	36,552	40,320
2014	23,519	8,673	4,530	36,722	40,955
2015	23,573	8,668	4,550	36,791	41,178
2016	23,612	8,715	4,574	36,901	41,378

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT  
 HISTORIC AVERAGE DAILY INFLUENT FLOW  
 AT WASTEWATER TREATMENT PLANT  
 PAST TEN FISCAL YEARS**

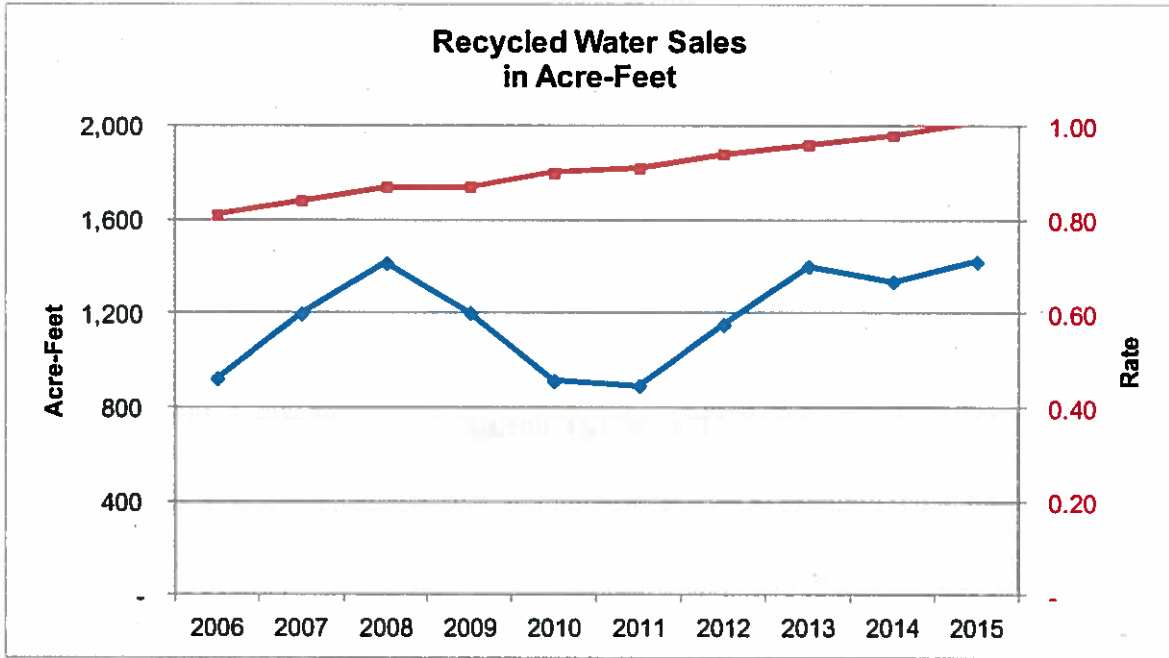


<u>Fiscal Year Ended June 30</u>	<u>Daily Average Flow (MGD)</u>	<u>Increase/Decrease</u>
2007	7.9	-38.0%
2008	8.4	6.3%
2009	8.3	-1.2%
2010	9.4	13.3%
2011	10.2	8.5%
2012	8.3	-18.6%
2013	7.8	-6.0%
2014	7.6	-2.6%
2015	7.7	1.3%
2016	8.1	4.9%

**Notes:**  
 MGD = Million Gallons per Day

**Source:** Napa Sanitation District

**NAPA SANITATION DISTRICT  
HISTORIC ANNUAL RECYCLED WATER SALES  
PAST TEN FISCAL YEARS**



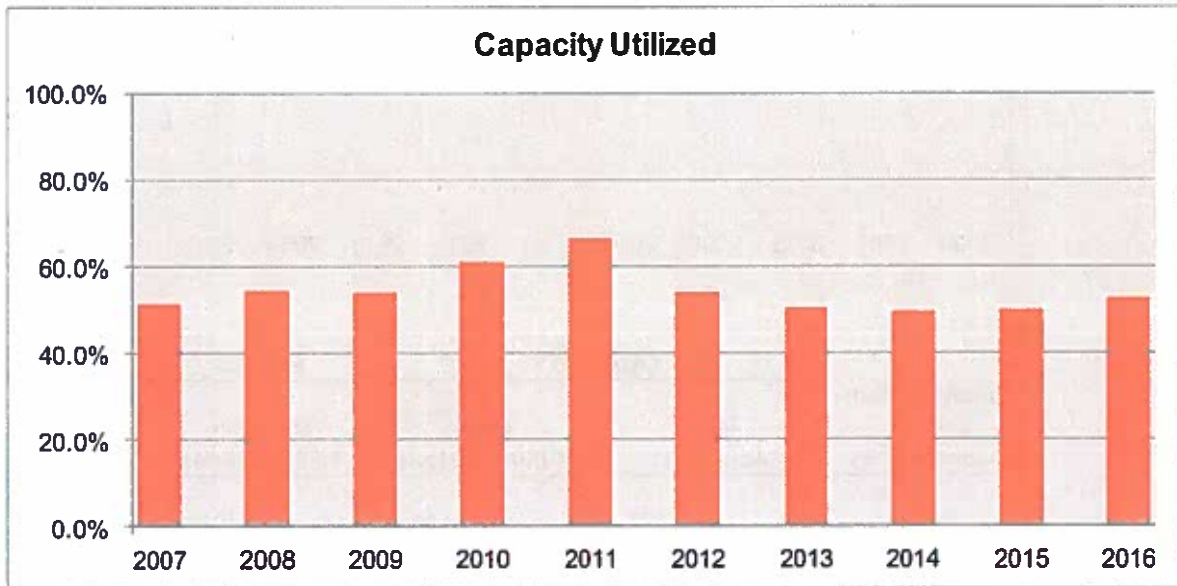
Calendar Year Ending December 31	QUANTITY		RATES
	Total Acre-Feet	Total Million Gallons	Rate per 1,000 Gallons
2006	924	301	0.81
2007	1,199	391	0.84
2008	1,415	461	0.87
2009	1,204	392	0.87
2010	913	298	0.90
2011	893	291	0.91
2012	1,153	376	0.94
2013	1,402	457	0.96
2014	1,337	436	0.98
2015	1,422	463	1.01

Notes:  
1 Acre-Foot = .325851 Million Gallons

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT  
OPERATING AND CAPITAL INDICATORS  
PAST TEN FISCAL YEARS**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Miles of Sewer Lines	266.64	267.64	268.60	268.95	269.05	270.00	270.00	270.00	270.00	270.00
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Number of Lift Stations	5	3	3	3	3	3	3	3	3	3
Treatment Design Capacity - (MG per Day)	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4
Gallons Treated - (Daily Average Flow - MGD)	7.9	8.4	8.3	9.4	10.2	8.3	7.8	7.6	7.7	8.1
Capacity Utilized	51.3%	54.5%	53.9%	61.0%	66.2%	53.9%	50.6%	49.4%	50.0%	52.6%



Source: Napa Sanitation District



**SINGLE AUDIT 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 Directors  
Napa Sanitation District  
Napa, California

### BAKERSFIELD OFFICE (MAIN OFFICE)

4200 BRUXTON AVENUE  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL: 661.324.4971  
FAX: 661.324.4997  
EMAIL: info@bacpas.com

### FRESNO OFFICE

7677 N. INGRAM AVENUE  
SUITE 101  
FRESNO, CA 93711  
TEL: 559.476.3592  
FAX: 559.476.3593

### PASADENA OFFICE

260 S. LOS ROBLES AVENUE  
SUITE 310  
PASADENA, CA 91101  
TEL: 626.204.6542  
FAX: 626.204.6547

### STOCKTON OFFICE

5250 CLAREMONT AVENUE  
SUITE 130  
STOCKTON, CA 95207  
TEL: 209.451.4833

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 Napa Sanitation District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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 District'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 District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 18, 2016





# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Napa Sanitation District  
Napa, California

### **BAKERSFIELD OFFICE (MAIN OFFICE)**

4200 TRUKSTUN AVENUE  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL: 661.324.4971  
FAX: 661.324.4997  
EMAIL: info@baczpas.com

### **FRESNO OFFICE**

7673 N. INGRAM AVENUE  
SUITE 101  
FRESNO, CA 93711  
TEL: 559.476.3592  
FAX: 559.476.3593

### **PASADENA OFFICE**

260 S. LOS ROBLES AVENUE  
SUITE 310  
PASADENA, CA 91101  
TEL: 626.204.6542  
FAX: 626.204.6547

### **STOCKTON OFFICE**

5250 CLAREMONT AVENUE  
SUITE 130  
STOCKTON, CA 95207  
TEL: 209.451.4833

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Napa Sanitation District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 18, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures we applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
November 18, 2016

**NAPA SANITATION DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of the Interior, Bureau of Reclamation</u> Passed through Sonoma County Water Agency: Water Reclamation and Reuse Program	15.504	R14AC00018	<u>\$ 1,861,364</u>
Total U.S. Department of the Interior, Bureau of Reclamation			<u>1,861,364</u>
Total Expenditures of Federal Awards			<u>\$ 1,861,364</u>

**NAPA SANITATION DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 1 – REPORTING ENTITY**

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

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is prepared on a full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

**NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the District's financial statements.

**NOTE 4 – PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the District determined that no identifying number is assigned for the program or the District was unable to obtain an identifying number from the pass-through entity.

**NOTE 5 – INDIRECT COST RATE**

The District elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**NAPA SANITATION DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Section 1**

Summary of Auditor's Results:

Financial Statements

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

Federal Awards

- |   |               |
|---|---------------|
| 1. Internal controls over major program:  |               |
| a. Material weaknesses identified?  | No            |
| b. Significant deficiencies identified not considered to be material weaknesses?                          | None reported |
| 2. Type of auditor's report issued on compliance for major program:                                       | Unmodified    |
| 3. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? | No            |

4. Identification of major programs:

CFDA Number

Name of Federal Program

15.504

Water Reclamation and Reuse Program

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs. | \$750,000 |
| 6. Auditee qualified as a low-risk auditee under the Uniform Guidance?      | No        |

**Section 2**

Financial Statement Findings

None reported.

**Section 3**

**Federal Awards Findings and Questioned Costs**

None reported.

**Section 4**

**Summary Schedule of Prior Year Findings and Questioned Costs**

None reported.