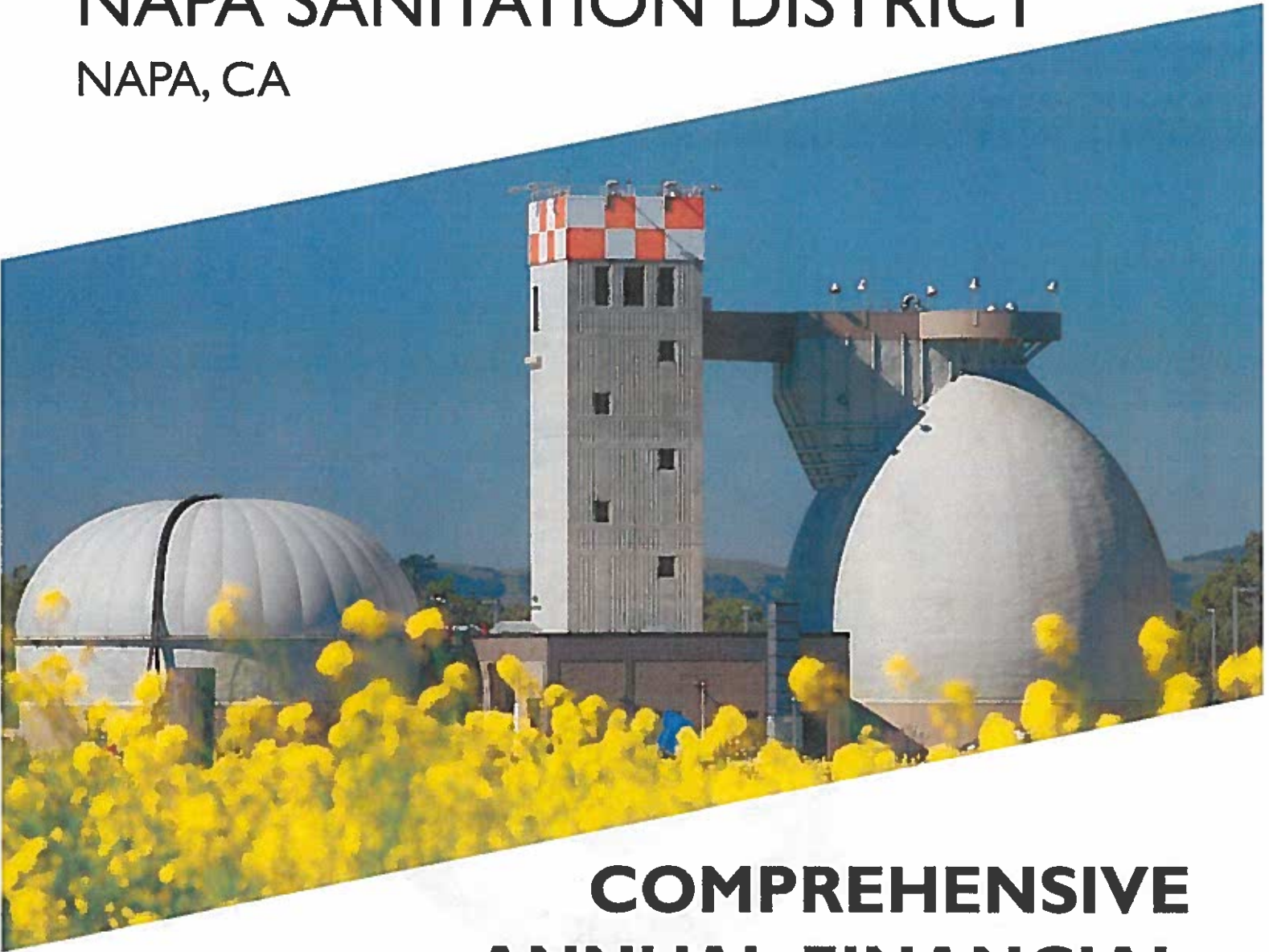


# NAPA SANITATION DISTRICT

NAPA, CA



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

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For the fiscal year ended  
June 30, 2017



**NapaSan**

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



# NapaSan

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**NAPA SANITATION DISTRICT  
NAPA, CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017**

**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, 2017**

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## INTRODUCTORY SECTION



# NapaSan

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November 27, 2017

The Board of Directors  
Napa Sanitation District

Directors:

Management of the Napa Sanitation District (NapaSan or the District) has prepared a Comprehensive Annual Financial Report of NapaSan for the fiscal year ended June 30, 2017. 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, NapaSan 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, 2017, 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, 2017, 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.

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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, 2016**

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.*

---

### **Overview**

Napa Sanitation District (NapaSan), 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.

NapaSan 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**

NapaSan 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.

---

### **Public Services**

There are over 37,000 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. NapaSan has completed upgrades to the SWRF, which include primary treatment, activated sludge facilities, dissolved air floatation clarification, tertiary filtration, and sludge digestion and solids de-watering 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 10.6 MGD. The wastewater is treated and discharged in various manners, depending on the source of the wastewater and the time of year.

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

From July 1 through September 30 (the dry season period) discharge to the Napa River is prohibited and wastewater is either stored in oxidation ponds or treated to 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 NapaSan's wastewater treatment process please visit the website at [www.NapaSan.com](http://www.NapaSan.com).

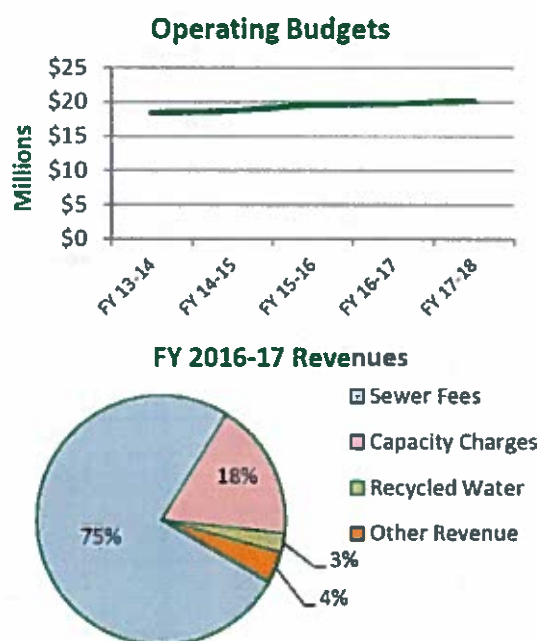
## Financial Plan

NapaSan's operating budget for Fiscal Year (FY) 2016/17 was \$20.18 million (including debt service and excluding intrafund transfers); the FY 2017/18 operating budget increased by 0.1% to \$20.2 million.

In addition to the operating budget, NapaSan has a capital budget based upon new and replacement infrastructure needs. A \$17,180,700 capital budget was adopted at the beginning of FY 2016/17; this budget was increased by \$2,124,050 for projects carried forward from the 2015/16 fiscal year and for adjustments made to the 10- Year Capital Improvement Plan (CIP).

NapaSan's 10-Year CIP approved in FY 2016/17 includes 242 construction projects and capital equipment purchases totaling more than \$182 million over the next 10 years. The new plan adopted for FY 2017/18 includes a continuation of the recommendations of the new Treatment Plant Master Plan and expansions of the recycled water storage system and totals \$176 million.

As shown in the pie chart below, most of NapaSan'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, NapaSan 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 NapaSan 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. The Board approved the fee to increase 15% in FY 2017/18.

#### ***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%
FY18	\$638.10	15.0%

#### ***Capacity Charges***

Capacity charges, sometimes referred to as "connection fees," are fees paid for the issuance of a permit to connect to NapaSan'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
July 1, 2016	\$8,950 per EDU
July 1, 2017	\$9,299 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 NapaSan operates and strategic direction which NapaSan 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 141,000 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, NapaSan provides wastewater services to the City of Napa, the Napa County's largest city (population 78,500), and some surrounding unincorporated areas.

Over the past few decades, NapaSan 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 NapaSan, as NapaSan does not have an *ad valorem* property tax nor is it dependent on state or federal financial support.

#### ***Strategic Planning***

In May 2017, 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 17/18 will be the first year of the updated Strategic Plan which incorporates these goals and objectives in its operational plan.

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

##### **Objectives:**

- 1A: Strive to replace and rehabilitate at least 2% of sewers annually, and preferably higher, with a focus on reducing Inflow & Infiltration
- 1B: Continue to implement an Asset Management program
- 1C: Design and construct the Browns Valley Road Interceptor and any associated capacity enhancements at the West Napa Pump Station
- 1D: Update the Collection System Master Plan and Treatment Plant Master Plan
- 1E: Study whether to implement a Private Lateral Program

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

##### **Objectives:**

- 2A: Conduct study of sewer service charge and capacity charge methodologies for residential customers and development, and make recommendation for Board consideration
- 2B: Evaluate long-term liabilities, including pension liability and OPEB liability, and develop policy options for Board consideration
- 2C: Conduct comprehensive review of strategies for developing non-rate/non-fee based revenues, including land leases, and provide options

#### **Goal 3: Operational Optimization**

##### **Objectives:**

- 3A: Reengage with winery industry to understand and evaluate options for mutually beneficial alternatives for managing winery waste
- 3B: Continue to evaluate opportunities for shared services
- 3C: Develop Business Continuity Plan as part of disaster mitigation
- 3D: Evaluate and recommend ways to reduce energy and chemistry consumption in treatment process and collection system

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

##### **Objectives:**

- 4A: Promote NapaSan as progressive, professional workplace through engagement and the development and promotion of internships and "in training" programs
- 4B: Conduct employee survey in Fall 2017
- 4C: Explore a Total Compensation Study
- 4D: Prepare for and begin MOU negotiations
- 4E: Address succession planning through supervisory/management training and an internal mentorship program

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

- 5A: Be proactive in communicating with the public, stakeholders and the press for all aspects of NapaSan's activities
- 5B: Complete the deliverables identified in the 2016 Communications Plan to address NapaSan outreach and public information goals

**Goal 6: Resource Recovery Objectives:**

- 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, with a long-term goal to achieve 50% reuse of average dry weather flow
- 6C: Evaluate current recycled water allocation policy
- 6D: Evaluate energy self-generation with the primary goal of decreasing overall energy costs, and recommend policy options for consideration
- 6E: Improve recycled water quality to increase appeal and acceptability of recycled water to current and future users
- 6F: Renew or extend the recycled water agreement with the City of Napa that permits NapaSan to sell recycled water within the City's water service area

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 February 2017, NapaSan updated and confirmed its comprehensive set of Financial Policies to govern the overall financial management and health of NapaSan. 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** – NapaSan maintains a balanced budget and does not use long-term debt to fund short-term or operational expenses.
- **Operating Reserves** – NapaSan maintains an operating reserve at least equal to 15% of budgeted annual operating expenses, excluding debt service and transfers.
- **Liquidity** – NapaSan maintains a liquidity reserve to ensure adequate cash is on hand to cover expenses in those months where expenses outpace revenues. The majority of NapaSan's revenues are received in December and in April through property assessments.
- **Revenues** – NapaSan estimates revenues conservatively and does not use one-time or unpredictable revenues to fund ongoing expenses.
- **Maintenance** – NapaSan protects its investment in its capital assets by budgeting for their adequate maintenance as a priority.
- **Debt** – NapaSan will not issue debt unless it can pay the debt service and still meet its other obligations from current revenues.
- **Audit** – NapaSan has its financial statements audited annually by an independent qualified third party in accordance with generally accepted auditing standards.
- **Financial Reporting** – NapaSan 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 NapaSan'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 for the fiscal year ended June 30, 2016. This was the sixth year that NapaSan has received this prestigious national award. In order to be awarded a Certificate of Achievement, NapaSan must publish an easily readable and efficiently organized CAFR. This Report must also satisfy both GAAP and applicable legal requirements.

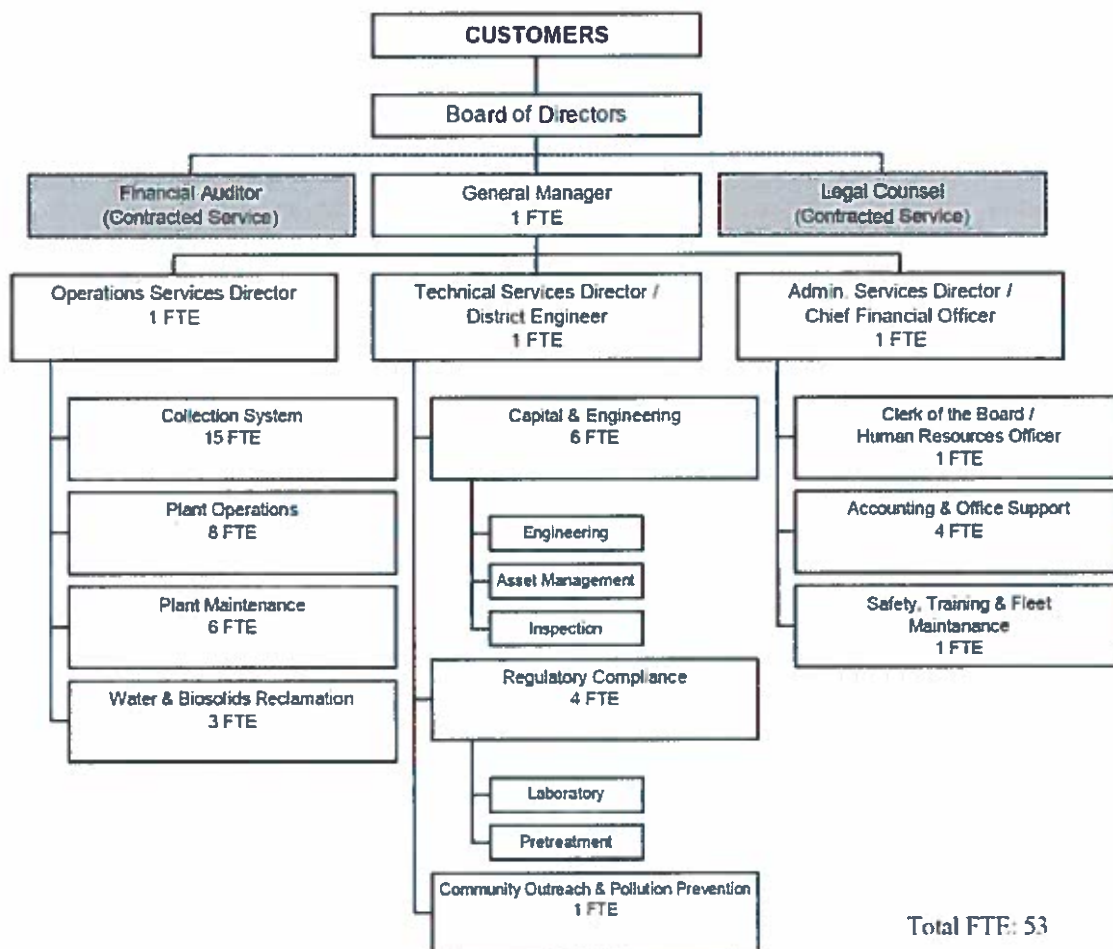
A *Certificate of Achievement for Excellence in Financial Reporting* from the GFOA is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement requirements and staff will submit it to the GFOA to determine eligibility 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 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 NapaSan department for its cooperation and support in conducting NapaSan's fiscal operations.

## Napa Sanitation District Organization Chart



Total FTE: 53

# **Napa Sanitation District Fiscal Year 2016/17**

## **Board of Directors**

Jill Techel, Chair  
Ryan Gregory, Vice-Chair  
Peter Mott, Director  
David Graves, Director  
Mary Lueros, Director  
Alfredo Pedroza, Alternate Director  
Doris Gentry, Alternate Director

## **General Manager**

Tim Healy, General Manager

## **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/District Engineer  
Kyle Broughton, Capital Program Manager  
Chris Francis, Interim Regulatory Compliance Manager

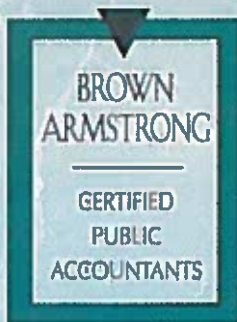


## FINANCIAL SECTION



# NapaSan

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# 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, 2017, 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 prior year comparative information have been derived from the District's 2016 financial statements and, in our report dated November 18, 2016, we expressed an unmodified opinion on the basic 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.

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FAX 661.324.4997  
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#### FRESNO OFFICE

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FRESNO, CA 93720  
TEL 559.476.3592

#### LAGUNA HILLS OFFICE

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LAGUNA HILLS, CA 92653  
TEL 949.652.5422

#### STOCKTON OFFICE

5250 CLAREMONT  
AVENUE  
SUITE 150  
STOCKTON, CA 95207  
TEL 209.451.4833

## 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, 2017, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 27, 2017, 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 27, 2017

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



# NapaSan

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**NAPA SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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, 2017. 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 2016/17 fiscal year by \$176,245,107 (*net position*), an increase of \$9,254,597. Of this amount, \$10,396,866 (*unrestricted net position*) may be used to meet ongoing obligations to citizens and creditors and \$165,848,241 is net investment in capital assets.
- Current year results reflect operating income of \$6,670,621, an increase of \$1,492,329 from prior year. Operating expenses increased by \$3,612,208 while operating revenue also increased by \$5,104,537.

**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**

	2017	2016	2015
<b>Assets:</b>			
Current and other assets	\$ 26,802,867	\$ 25,221,215	\$ 26,971,193
Capital assets, net	219,202,122	217,579,622	199,244,754
Total assets	246,004,989	242,800,837	226,215,947
<b>Deferred outflows of resources:</b>			
Deferred employer pension contributions	4,591,803	3,538,010	1,242,111
Deferred capacity charges	43,188	-	-
Total deferred outflows	4,634,991	3,538,010	1,242,111
<b>Liabilities:</b>			
Current and other liabilities	8,367,871	11,606,705	11,744,152
Long-term liabilities	65,327,768	66,582,206	67,972,438
Total liabilities	73,695,639	78,188,911	79,716,590
<b>Deferred inflows of resources:</b>			
Deferred pension	699,234	1,159,426	2,090,587
<b>Net position:</b>			
Net investment in capital assets	165,848,241	161,208,132	139,960,309
Unrestricted	10,396,866	5,782,378	5,690,572
Total net position	\$ 176,245,107	\$ 166,990,510	\$ 145,650,881

During the fiscal year ended June 30, 2017, net position increased by \$9,254,597 mostly attributable to an increase in capital assets, an increase in sewer and capacity charges and a decrease in current liabilities.

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

	2017	2016	2015
<b>Operating revenues:</b>			
Sewer charges	\$ 22,501,544	\$ 19,887,172	\$ 19,190,535
Capacity charges	5,355,828	3,139,503	1,568,328
Other charges for services	1,102,248	828,408	738,691
<b>Total operating revenues</b>	<b>28,959,620</b>	<b>23,855,083</b>	<b>21,497,554</b>
<b>Operating expenses:</b>			
Wastewater collection, treatment, and reclamation	4,442,667	4,301,831	3,970,988
Administration and general	9,000,601	6,623,936	7,661,562
Depreciation	8,845,731	7,751,024	7,542,959
<b>Total operating expenses</b>	<b>22,288,999</b>	<b>18,676,791</b>	<b>19,175,509</b>
<b>Operating income</b>	<b>6,670,621</b>	<b>5,178,292</b>	<b>2,322,045</b>
<b>Nonoperating revenue (expense):</b>			
Interest income	107,091	63,905	147,041
Interest expense	(1,715,759)	(1,815,759)	(1,936,274)
Gain on asset disposal	20,313	14,147	21,518
Other revenues	732,179	795,112	766,496
<b>Total nonoperating revenue (expense)</b>	<b>(856,176)</b>	<b>(942,595)</b>	<b>(1,001,219)</b>
<b>Net income before capital grants and contributions</b>	<b>5,814,445</b>	<b>4,235,697</b>	<b>1,320,826</b>
<b>Capital grants and contributions</b>	<b>3,440,152</b>	<b>17,103,932</b>	<b>12,575,906</b>
<b>Change in net position</b>	<b>9,254,597</b>	<b>21,339,629</b>	<b>13,896,732</b>
<b>Net position, beginning of year, as restated</b>	<b>166,990,510</b>	<b>145,650,881</b>	<b>131,754,149</b>
<b>Net position, end of year</b>	<b>\$ 176,245,107</b>	<b>\$ 166,990,510</b>	<b>\$ 145,650,881</b>

For the fiscal year ended June 30, 2017, operating revenue increased by \$5,104,537 and operating expenses increased by \$3,612,208. The increase in operating revenue is due primarily to an increase in sewer service charges. The sewer service charges rate increased by 15% in fiscal year 2016-17. In addition, higher capacity charges (\$5,355,828) also contributed to the increase. These were received for the development of the Meritage Commons, the Napa County Staff Secure Facility and the Meadows of Napa Valley Retirement Community expansion project. There was an increase in utilities by \$163,533 and an increase in depreciation by \$1,094,707. There was also an increase in salaries and benefits (\$2,307,537). The increase 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, 2017, the District's investment in capital assets amounted to \$165,848,241 (net of accumulated depreciation), an increase of \$4,640,109. 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 (\$31,856,407). Several major projects were moved from Construction in Progress and placed into service.

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

**Capital Assets, Net of Accumulated Depreciation**

	2017	2016	2015
Land	\$ 7,426,149	\$ 7,426,149	\$ 7,426,149
Buildings and improvements	164,304,414	132,448,007	115,742,435
Equipment	4,034,808	3,379,547	3,030,322
Construction in progress	24,917,043	55,057,991	54,526,210
Donated sewer lines and other contributed assets	18,519,708	19,267,928	18,519,638
	<u>\$ 219,202,122</u>	<u>\$ 217,579,622</u>	<u>\$ 199,244,754</u>

Major capital projects for the fiscal year include the following:

- 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 replacing the existing diffusers panels in the aeration basins and installing instrumentation and control improvements to create annual energy savings.
- The completion of construction work of 9 miles of recycled water distribution pipeline for the Los Carneros Water District was placed into service.
- New Influent Pump Station that was constructed to increase capacity for wet weather flows up to 60 million gallons per day was placed into service.
- The project to be able to separate and allow for different pumping pressures to the north and to the south of the recycled water pipeline was placed into service.
- Began construction to rehabilitate and reduce inflow and infiltration in Basin G (Browns Valley area).

For additional information on capital assets, see Note 3 on page 19.

### Long-Term Obligations

At June 30, 2017, the District's total long-term obligations were \$65,327,768, compared to \$66,582,206 in the prior year. The long-term obligations amount was comprised of \$12,766,481 of the net pension liability, \$152,445 of compensated absences and long-term debt of \$52,408,842.

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 78% of the District's operating revenues in FY 2016/17 coming from sewer service charges collected as assessments on property tax bills. Other significant revenue sources include capacity charges (18% of operating revenue), land leases and recycled water sales.

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 sewer rate per EDU for FY 2016/17 went up 15% (from \$482.50 to \$544.88), and the sewer rate in FY 2017/18 also will increase 15% (from \$544.88 to \$638.10). The increase in FY 2017/18 is expected to result in just over \$3.5 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 9.5% of sewer 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 0.9%, or 390 EDUs being developed during the fiscal year. There was a 3.8% increase in the capacity charge fee, from \$8,950 to \$9,299 per EDU on July 1, 2017. On July 1, 2018, 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 was \$1.57 per 1,000 gallons. In 2017, the rate increased to \$1.62. 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 and winter weather patterns. The recycled water sales increased in FY15 and FY16 due to the drought. FY17 sales increased due to increased users of the expanded recycled water system.

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 accounts quarterly. For FY 2017/18, the District has assumed an interest earnings rate of 1.25%.

Capital grants and contributions are anticipated to continue in FY 2017/18 as the District invoices the U.S. Bureau of Reclamation and Napa County for reimbursements to complete an expansion of the recycled water system along Coombsville Road. The District also anticipates receiving financial support for its recycled water reservoir lining project from the State Department of Water Resources through the Green Project Reserve funding program.

FY 2017/18 District revenues from all sources, excluding internal transfers, are expected to be \$36,132,100. When compared to FY 2016/17 actual revenues, the FY 2017/18 revenues are projected to be higher, due primarily to the anticipated revenue from sewer fees and the receipt of capital grants and contributions.

### **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 for FY 2017/18 are \$9,581,300.

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 2017/18 supplies and services budget of \$5,814,350 is 3.0% lower than the FY 2016/17 budget of \$5,994,110. The decrease is 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 2017/18. However, the Capital Improvement Plan anticipates the issuance of debt through the Clean Water State Revolving Fund to fund the Browns Valley Sewer Interceptor and West Napa Pump Station Improvement projects in the near future.

Overall, operating expenses for the District in FY 2017/18 are budgeted to be \$20,201,750 (including debt service and excluding intrafund transfers). The capital budget (excluding intrafund transfers) is set at \$25,018,300 for FY 2017/18, although it is anticipated that the capital budget will increase due to unfinished projects in FY 2016/17 being carried forward into FY 2017/18.

#### Financial Status

The financial condition of the District remains sound. District operating revenues are stable, although capital expansion revenues (capacity charges) can fluctuate annually based on demand for new connections to the system. 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.



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## **BASIC FINANCIAL STATEMENTS**



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**NAPA SANITATION DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017  
(WITH COMPARATIVE DATA FOR JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Unrestricted assets:		
Cash in County treasury	\$ 22,532,161	\$ 16,367,311
Imprest cash	300	300
Assessments receivable	166,360	140,960
Accounts receivable (net)	1,411,357	6,241,430
Other receivables	51,193	88,846
Inventory	131,137	114,027
Prepaid expenses	4,542	27,350
Net OPEB Asset	477,468	240,890
Restricted cash:		
With fiscal agent	1,991,896	1,989,523
Flexible spending	36,453	10,578
<b>Total Current Assets</b>	<u>26,802,867</u>	<u>25,221,215</u>
<b>CAPITAL ASSETS</b>		
Nondepreciable	32,343,192	62,484,140
Depreciable, net	186,858,930	155,095,482
<b>Total Capital Assets</b>	<u>219,202,122</u>	<u>217,579,622</u>
<b>Total Assets</b>	<u>246,004,989</u>	<u>242,800,837</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred employer pension contributions	4,591,803	3,538,010
Deferred capacity charges	43,188	-
<b>Total Deferred Outflows of Resources</b>	<u>4,634,991</u>	<u>3,538,010</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 250,639,980</u>	<u>\$ 246,338,847</u>

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

**NAPA SANITATION DISTRICT**  
**STATEMENT OF NET POSITION (Continued)**  
**JUNE 30, 2017**  
**(WITH COMPARATIVE DATA FOR JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,960,831	\$ 7,209,099
Salaries and benefits payable	250,430	349,867
Unearned revenue	104,449	52,508
Deposits from others	10,000	18,245
Interest payable	773,366	813,262
Current portion of compensated absences	331,860	329,427
Current portion of long-term debt	<u>2,936,935</u>	<u>2,834,297</u>
Total Current Liabilities	<u>8,367,871</u>	<u>11,606,705</u>
<b>NONCURRENT LIABILITIES</b>		
Liability for compensated absences	152,445	103,707
Net pension liability	12,766,481	10,951,783
Long-term debt, including unamortized original issue premium	<u>52,408,842</u>	<u>55,526,716</u>
Total Non-Current Liabilities	<u>65,327,768</u>	<u>66,582,206</u>
Total Liabilities	<u>73,695,639</u>	<u>78,188,911</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	<u>699,234</u>	<u>1,159,426</u>
<b>NET POSITION</b>		
Net investment in capital assets	165,848,241	161,208,132
Unrestricted	<u>10,396,866</u>	<u>5,782,378</u>
Total Net Position	<u>176,245,107</u>	<u>166,990,510</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 250,639,980</u></u>	<u><u>\$ 246,338,847</u></u>

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, 2017  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Sewer charges	\$ 22,501,544	\$ 19,887,172
Capacity charges	5,355,828	3,139,503
Other charges for services	<u>1,102,248</u>	<u>828,408</u>
Total operating revenues	<u>28,959,620</u>	<u>23,855,083</u>
<b>OPERATING EXPENSES</b>		
Insurance	191,371	189,308
Salaries and benefits	8,179,992	5,872,455
Materials, supplies, and repairs	2,186,340	2,156,336
General and administrative	625,406	562,173
Contractual services	1,148,531	1,197,400
Utilities	1,111,628	948,095
Depreciation	<u>8,845,731</u>	<u>7,751,024</u>
Total operating expenses	<u>22,288,999</u>	<u>18,676,791</u>
Operating income	<u>6,670,621</u>	<u>5,178,292</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Lease income	718,251	715,254
Taxes	(26,545)	(24,995)
Gain on disposal of assets	20,313	14,147
Interest income	107,091	63,905
Interest expense	(1,715,759)	(1,815,759)
Other nonoperating revenue	<u>40,473</u>	<u>104,853</u>
Total nonoperating revenue (expense)	<u>(856,176)</u>	<u>(942,595)</u>
Income before capital contributions	5,814,445	4,235,697
Capital Grants and Contributions	<u>3,440,152</u>	<u>17,103,932</u>
CHANGE IN NET POSITION	9,254,597	21,339,629
NET POSITION, BEGINNING OF YEAR	<u>166,990,510</u>	<u>145,650,881</u>
NET POSITION, END OF YEAR	<u><u>\$ 176,245,107</u></u>	<u><u>\$ 166,990,510</u></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, 2017  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 33,793,701	\$ 25,679,664
Payments to suppliers	(8,302,430)	(4,904,819)
Payments to employees	(8,398,682)	(7,865,182)
Net cash provided by operating activities	<u>17,092,589</u>	<u>12,909,663</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tax expense	(26,545)	(24,995)
Dividends and rebates received	40,473	104,853
Net cash provided by noncapital financing activities	<u>13,928</u>	<u>79,858</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments of principal on long-term debt	(3,015,236)	(2,912,654)
Net proceeds from sale of capital assets	20,313	14,147
Net purchase of capital assets	(10,468,231)	(26,085,892)
Capital contributions	3,440,152	17,103,932
Interest paid	(1,715,759)	(1,815,759)
Net cash used by capital and related financing activities	<u>(11,738,761)</u>	<u>(13,696,226)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	107,091	63,905
Lease income	718,251	715,254
Net cash provided by investing activities	<u>825,342</u>	<u>779,159</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	6,193,098	72,454
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>18,367,712</u>	<u>18,295,258</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 24,560,810</u></u>	<u><u>\$ 18,367,712</u></u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</b>		
Cash and cash equivalents in current assets	\$ 22,532,461	\$ 16,367,611
Cash and cash equivalents in restricted assets	2,028,349	2,000,101
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 24,560,810</u></u>	<u><u>\$ 18,367,712</u></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, 2017**  
**(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,670,621	\$ 5,178,292
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,845,731	7,751,024
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	4,830,073	1,947,314
Other receivables	12,253	(35,667)
Inventory	(17,110)	24,124
Prepaid expenses	22,808	127,551
Net OPEB Asset	(236,578)	(240,890)
Deferred outflows of resources	(1,096,981)	(2,295,899)
Increase (decrease) in liabilities:		
Accounts payable	(1,473,466)	1,417,508
Salaries and benefits payable	(99,437)	4,321
Unearned revenue	51,941	51,078
Deposits from others	(8,245)	(87,066)
Compensated absences payable	51,171	(866)
Deferred inflows of resources	(460,192)	(931,161)
Total adjustments	<u>10,421,968</u>	<u>7,731,371</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 17,092,589</u>	<u>\$ 12,909,663</u>
Noncash Investing, Capital, and Financing Activities:		
Contribution of capital assets	<u>\$ 378,450</u>	<u>\$ 1,874,993</u>

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



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### **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.



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**NAPA SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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, 2017, was \$484,305. 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 two items, deferred pension contributions and deferred capacity charges, which qualify 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 District 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. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is effective for periods beginning after June 15, 2016. There was no impact on the financial statements due to the implementation of this statement.

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

GASB Statement No. 77, *Tax Abatement Disclosures*, is effective for reporting periods beginning after December 15, 2015. There was no impact on the financial statements due to the implementation of this statement.

#### 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. There was no impact on the financial statements due to the implementation of this statement.

#### 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. There was no impact on the financial statements due to the implementation of this statement.

#### 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 15, 2016. There was no impact on the financial statements due to the implementation of this statement.

#### 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. There was no impact on the financial statements due to the implementation of this statement.

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

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

**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. The District has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

**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. The District has not fully judged the effect of the implementation of GASB Statement No. 81 as of the date of the basic financial statements.

**Governmental Accounting Standards Board Statement No. 83**

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District has not fully judged the effect of the implementation of GASB Statement No. 83 as of the date of the basic financial statements.

**Governmental Accounting Standards Board Statement No. 84**

GASB Statement No. 84, *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not fully judged the effect of the implementation of GASB Statement No. 84 as of the date of the basic financial statements.

**Governmental Accounting Standards Board Statement No. 85**

GASB Statement No. 85, *Omnibus 2017*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The District has not fully judged the effect of the implementation of GASB Statement No. 85 as of the date of the basic financial statements.

**Governmental Accounting Standards Board Statement No. 86**

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for periods beginning after June 15, 2017. The District has not fully judged the effect of the implementation of GASB Statement No. 86 as of the date of the basic financial statements.

**Governmental Accounting Standards Board Statement No. 87**

GASB Statement No. 87, *Leases*. The requirements of this statement are effective for periods beginning after December 15, 2019. The District has not fully judged the effect of the implementation of GASB Statement No. 87 as of the date of the basic financial statements.

## **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, 2017, 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	\$ 22,532,161	\$ -	\$ 22,532,161
Imprest cash	300	-	300
Investments with fiscal agent	-	1,991,896	1,991,896
Flexible spending	-	36,453	36,453
Total	<u>\$ 22,532,461</u>	<u>\$ 2,028,349</u>	<u>\$ 24,560,810</u>

Restricted cash represents an amount restricted for debt service of \$1,991,896.

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	\$ 1,991,896	\$ 1,991,896	\$ 1,991,896	--

Required disclosures for the District's deposit and investment risks for the cash held in the County Treasury at June 30, 2017, were as follows:

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

### **Investment in the County's Cash and Investment Pool**

The District is a voluntary participant in the County's cash and investment pool. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis.

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

The Napa County Treasury Pool (Pool) holds investments that are measured at fair value on a recurring basis. Investments are categorized within a fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted for identical assets in active markets;
- Level 2: Investments reflect prices based upon identical or similar assets that are observable either directly or indirectly; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The Pool has the following recurring fair value measurements as of June 30, 2017:

Napa County Treasury Pool is valued using Level 1: Investments reflect prices quoted for identical assets in active markets.

**NOTE 3 – CAPITAL ASSETS**

Changes in the District's capital assets and accumulated depreciation for the year ended June 30, 2017, are summarized as follows:

	Balance July 1, 2016	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2017
Capital assets, not being depreciated:					
Land	\$ 7,426,149	\$ -	\$ -	\$ -	\$ 7,426,149
Construction in progress	55,057,991	5,698,155	-	(35,839,103)	24,917,043
Total capital assets, not being depreciated	62,484,140	5,698,155	-	(35,839,103)	32,343,192
Capital assets, being depreciated:					
Buildings and improvements	209,946,342	3,338,357	(48,580)	35,824,224	249,060,343
Equipment	6,992,906	1,059,489	(218,274)	14,879	7,849,000
Donated assets	53,374,132	378,450	-	-	53,752,582
Total capital assets, being depreciated	270,313,380	4,776,296	(266,854)	35,839,103	310,661,925
Less accumulated depreciation for:					
Buildings and improvements	(77,498,335)	(7,306,174)	48,580	-	(84,755,929)
Equipment	(3,613,359)	(412,887)	212,054	-	(3,814,192)
Donated assets	(34,106,204)	(1,126,670)	-	-	(35,232,874)
Total accumulated depreciation	(115,217,898)	(8,845,731)	260,634	-	(123,802,995)
Total capital assets, being depreciated, net	155,095,482	(4,069,435)	(6,220)	35,839,103	186,858,930
Total capital assets, net	\$ 217,579,622	\$ 1,628,720	\$ (6,220)	\$ -	\$ 219,202,122

#### NOTE 4 – LONG-TERM DEBT

Individual issues of Bonds, Notes, and Certificates of Participation outstanding at June 30, 2017:

	Maturity	Interest Rates <sup>1</sup>	Annual Principal Installments	Original Issue Date	Original Issue	Outstanding June 30, 2017
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	\$ 18,825,000
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	\$ 32,555,000
State Revolving Fund – (SRF) Purpose: Summit Avenue/Ora Drive	2022	2.50%	\$34,421-\$58,777	12/13/2003	\$ 901,376	\$ 331,845
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	\$ 880,873
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	\$ 117,136

<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:

	Balance July 1, 2016	Additions	Retirement	Balance June 30, 2017	Due Within One Year
State Revolving Funds Loan	\$ 1,454,151	\$ -	\$ (124,297)	\$ 1,329,854	\$ 126,935
2009 Certificates of Participation Series B	20,090,000	-	(1,265,000)	18,825,000	1,305,000
2012 Certificates of Participation Series A	34,000,000	-	(1,445,000)	32,555,000	1,505,000
Add: Unamortized Original Issue Premium	2,816,862	-	(180,939)	2,635,923	-
Compensated Absences	433,134	502,149	(450,978)	484,305	331,860
Net Pension Liability	10,951,783	3,883,124	(2,068,426)	12,766,481	-
Total	<u>\$ 69,745,930</u>	<u>\$ 4,385,273</u>	<u>\$ (5,534,640)</u>	<u>\$ 68,596,563</u>	<u>\$ 3,268,795</u>

As of June 30, 2017, annual debt service requirements of governmental activities to maturity are as follows:

Fiscal Year(s)	Business-Type Activities			
	State Revolving Fund - (SRF) Loans		Certificates of Participation	
	Principal	Interest	Principal	Interest
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	138,075	15,752	3,235,000	1,371,946
2023-2027	485,569	42,581	18,130,000	4,872,509
2028-2032	182,057	4,905	15,575,000	1,573,275
2033	-	-	2,605,000	45,588
Total	<u>\$ 1,329,854</u>	<u>\$ 154,395</u>	<u>\$ 51,380,000</u>	<u>\$ 14,464,282</u>

## **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 DC Plan) created in accordance with Internal Revenue Code Section 457. The DC 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 DC 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 DC 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 DC Plan. In accordance with the new law, the District set up a trust to hold assets and earnings of the DC 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 DC Plan and, therefore, is not considered to have fiduciary responsibility for the DC Plan or hold the DC 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), a cost-sharing 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 (the 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. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

**NOTE 5 – PENSION PLANS (Continued)****B. Defined Benefit Pension Plan Description (Continued)**

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

**Miscellaneous Tier 1**

Hire Date	Prior to September 5, 2009
Benefit Formula	2.7% @ 55
Benefit Vesting Schedule	5 years service
Benefit Payments	Monthly for life
Retirement Age	50 - 55
Monthly Benefits, as a Percentage of Eligible Compensation	2.0% to 2.7%
Required Employee Contribution Rates	8%
Required Employer Contribution Rates	38.486%

**Miscellaneous Tier 2**

Hire Date	On or after September 5, 2009
Benefit Formula	2.0% @ 55
Benefit Vesting Schedule	5 years service
Benefit Payments	Monthly for life
Retirement Age	50 - 63
Monthly Benefits, as a Percentage of Eligible Compensation	1.426% to 2.418%
Required Employee Contribution Rates	7%
Required Employer Contribution Rates	9.655%

**PEPRA**

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



**NOTE 5 – PENSION PLANS (Continued)****B. Defined Benefit Pension Plan Description (Continued)**

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - Employer	\$ 817,981
Contributions - Employee (Paid by Employer)	377,534

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

As of June 30, 2017, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 12,766,481
Total Net Pension Liability	<u>\$ 12,766,481</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, 2016, 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, 2015, rolled forward to June 30, 2016, 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 the Plan as of June 30, 2015 and 2016, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.39919%
Proportion - June 30, 2016	0.36750%
Change - Increase (Decrease)	-0.03169%

For the year ended June 30, 2017, the District recognized pension expense of \$1,882,300. At June 30, 2017, 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>
Difference between Expected and Actual Experience	\$ 41,016	\$ -
Changes of Assumptions	-	503,393
Differences between Projected and Actual Investment Earnings	2,619,992	-
Differences between Employer's Contributions and Proportionate Share of Contributions	349,208	23,865
Change in Employer's Proportion	-	171,976
Pension Contributions Made Subsequent to Measurement Date	<u>1,581,587</u>	<u>-</u>
Total	<u>\$ 4,591,803</u>	<u>\$ 699,234</u>

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

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

\$1,581,587 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, 2017. 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,	
2018	\$ 178,262
2019	230,934
2020	1,223,177
2021	678,609
2022	-
Thereafter	-
Total	<u>\$ 2,310,982</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous PEPRA
Valuation Date	June 30, 2015	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:			
Discount Rate	7.65	7.65	7.65
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%
Projected Salary Increases	3.0% - 4.6%	(1) 3.0% - 4.6%	(1) 3.0% - 4.6%
Investment Rate of Return	7.50%	(2) 7.50%	(2) 7.50%
	Based on the 2010	(3) Based on the 2010	(3) Based on the 2010
	CalPERS Experience Study	CalPERS Experience Study	CalPERS Experience Study
	for the period from 1997 to	for the period from 1997 to	for the period from 1997 to
	2007	2007	2007
Mortality			

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

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

(3) The mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

The underlying actuarial assumptions used in the June 30, 2015 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	20.00%	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	1.00%	-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	\$ 18,227,732	\$ 12,766,481	\$ 8,253,028

***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, 2017, the District reported a payable of \$106 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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

***Plan Description:*** The District has an agent multiple-employer OPEB plan. 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.

For employees hired prior to July 1, 2014, the District pays for coverage of the retiree plus eligible dependents. For employees hired on July 1, 2014 or after, the District pays for coverage of the retiree only. 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, vest in OPEB benefits based on a vesting schedule. Employees hired after September 4, 2009, have reduced pensions so they are predicted to retire later.

As of June 30, 2017, the District had 38 retirees receiving benefits at a cost of approximately \$335,582.

***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, \$621,174 or 161.5% of the actuarially required contributions, to the retiree healthcare program. Of this contribution, \$318,664 is attributable to health benefits paid to retirees outside of California Employers' Retiree Benefit Trust (CERBT), \$302,510 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	\$ 384,596
Interest on net OPEB obligation	-
Total Annual OPEB Cost	384,596
Contributions made	621,174
Change in Net OPEB Obligation (Asset)	(236,578)
Net OPEB Obligation (Asset) - Beginning of Year	(240,890)
Net OPEB Obligation (Asset) - End of Year	<u>\$ (477,468)</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:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2017	\$ 384,596	\$ 621,174	161.5%	\$ (477,468)
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, 2017, was 22 years.

## **NOTE 7 – RELATED PARTY TRANSACTIONS**

Pursuant to an agreement between the County and the District, the County provides Information Technology Services and Accounting Services to the District. During the year ended June 30, 2017, the District paid the County the following amounts for these services:

Information Technology Services	\$	337,007
Accounting Services		26,289

## **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, 2017:

Comprehensive Business Policy - SDRMA	
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	10,000,000
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
Pollution Legal Liability - Indian Harbor Insurance Co.	2,000,000
Workers' Compensation Program	
CSRMA - Initial workers' compensation	750,000
National Union Fire Co. of Pittsburgh, PA - Excess workers' compensation	Statutory
National Union Fire Co. of Pittsburgh, PA - Employer's liability	750,000

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 27, 2017, which is the date the financial statements were issued. There are no reportable events through this date.



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## **REQUIRED SUPPLEMENTARY INFORMATION**



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**NAPA SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2017**

**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	\$ 3,510,062	41.69%	\$ 5,073,680	69.18%
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, 2017**

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

	<u>Miscellaneous June 30, 2016</u>	<u>Miscellaneous June 30, 2015</u>	<u>Miscellaneous June 30, 2014</u>
Proportion of the Net Pension Liability	0.36750%	0.399200%	0.3759100%
Proportionate Share of the Net Position Liability	\$ 12,766,481	\$ 10,951,783	\$ 9,290,707
Covered-Employee Payroll	\$ 4,897,437	\$ 4,527,631	\$ 4,277,047
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	260.68%	241.89%	217.22%
Plan's Fiduciary Net Position	\$ 27,798,062	\$ 27,843,404	\$ 29,702,267
Plan's Total Pension Liability	\$ 40,564,543	\$ 38,795,187	\$ 38,992,974
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.53%	71.77%	76.17%

\* 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, 2017**

**SCHEDULE OF CONTRIBUTIONS**

	<u>Miscellaneous June 30, 2016</u>	<u>Miscellaneous June 30, 2015</u>	<u>Miscellaneous June 30, 2014</u>
Actuarially Determined Contribution	\$ 1,581,587	\$ 1,513,722	\$ 1,326,544
Contributions in Relation to the Actuarially Determined Contribution	<u>1,581,587</u>	<u>1,513,722</u>	<u>1,326,544</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 4,897,437	\$ 4,527,631	\$ 4,277,047
Contributions as a Percentage of Covered- Employee Payroll	32.29%	33.43%	31.02%

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



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## STATISTICAL SECTION



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**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)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Assets</b>										
Current and other assets	\$ 26,803	\$ 25,221	\$ 26,971	\$ 43,534	\$ 51,357	\$ 22,414	\$ 23,239	\$ 23,163	\$ 20,801	\$ 20,523
Capital assets	219,202	217,580	199,245	168,218	155,508	149,916	148,192	147,829	150,123	149,064
<b>Total assets</b>	<b>246,005</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>Deferred Outflows of Resources</b>										
Deferred employer pension contributions	4,592	3,538	1,242	-	-	-	-	-	-	-
Deferred capacity charges	43	-	-	-	-	-	-	-	-	-
<b>Total deferred outflows</b>	<b>4,635</b>	<b>3,538</b>	<b>1,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>										
Current and other liabilities	8,368	11,607	11,744	7,863	6,031	4,601	4,250	3,441	3,146	3,094
Long-term liabilities	65,328	66,582	67,972	61,603	64,404	33,751	35,831	37,744	37,097	37,099
<b>Total liabilities</b>	<b>73,696</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>Deferred Inflows of Resources</b>										
Pension	699	1,159	2,091	-	-	-	-	-	-	-
<b>Net Position</b>										
Net investment in capital assets	165,848	161,208	139,960	115,847	115,038	117,505	114,274	112,467	115,483	114,093
Restricted for debt service and construction projects	-	-	-	-	-	-	3,388	3,014	4,114	9,957
Unrestricted	10,397	5,783	5,691	26,438	21,393	16,474	13,689	14,326	11,084	5,344
<b>Total net position</b>	<b>\$ 176,245</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>

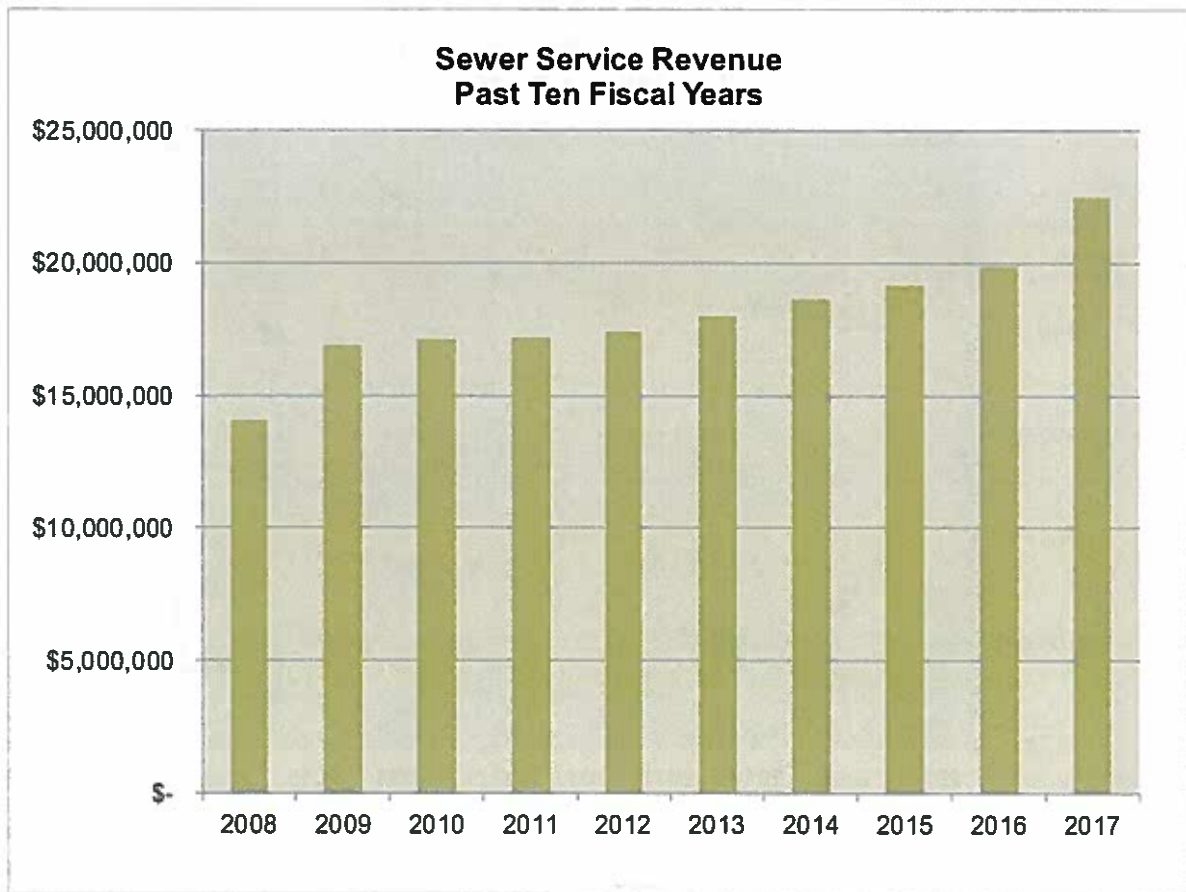
Source: Napa Sanitation District Basic Financial Statements

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Operating Revenues</b>										
Sewer charges	\$ 22,502	\$ 19,887	\$ 19,191	\$ 18,665	\$ 17,965	\$ 17,400	\$ 17,173	\$ 17,089	\$ 16,881	\$ 14,051
Capacity charges	5,356	3,140	1,568	1,774	1,517	1,426	1,339	592	821	2,868
Other charges for services	1,102	828	739	688	684	689	531	530	220	296
<b>Total operating revenues</b>	<b>28,960</b>	<b>23,855</b>	<b>21,498</b>	<b>21,127</b>	<b>20,166</b>	<b>19,515</b>	<b>19,043</b>	<b>18,211</b>	<b>17,922</b>	<b>17,215</b>
<b>Operating Expenses</b>										
Insurance	191	189	188	192	185	211	199	196	229	238
Salaries and benefits	8,180	5,872	6,956	6,967	7,034	6,503	6,422	6,333	6,124	5,482
Materials, supplies, and repairs	2,186	2,156	2,090	2,118	1,978	2,037	1,321	1,288	1,413	1,811
General and administrative	625	562	518	513	632	424	408	416	322	378
Contractual services	1,149	1,198	1,095	1,131	1,229	1,329	1,751	1,823	1,817	1,457
Utilities	1,112	948	786	1,002	769	904	834	925	1,047	1,197
Depreciation	8,846	7,751	7,543	7,302	7,082	7,045	6,653	6,519	6,186	5,357
Amortization	-	-	-	-	43	33	33	394	15	15
<b>Total operating expenses</b>	<b>22,289</b>	<b>18,676</b>	<b>19,178</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>Operating income</b>	<b>6,671</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>Nonoperating Revenue (Expense)</b>										
Lease income	718	715	713	729	1,488	130	168	301	528	164
Taxes	(26)	(25)	(25)	(24)	(24)	(24)	(23)	(24)	(31)	(29)
Gain (loss) on disposal of assets	20	14	21	2,848	-	14	96	(61)	(80)	(10)
Interest income	107	64	147	246	200	113	144	183	459	886
Interest expense	(1,715)	(1,816)	(1,936)	(2,116)	(2,265)	(1,080)	(1,127)	(1,820)	(1,812)	(1,755)
Other nonoperating revenue	40	105	79	170	319	-	160	133	991	341
<b>Total nonoperating revenue (expense)</b>	<b>(856)</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>Income (loss) before capital contributions</b>	<b>5,815</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>Capital Contributions</b>	<b>3,440</b>	<b>17,104</b>	<b>12,576</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>Change in Net Position</b>	<b>9,255</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>Net Position, Beginning of Year</b>	<b>166,990</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>Net Position, End of Year</b>	<b>\$ 176,245</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>

Source: Napa Sanitation District Basic Financial Statements

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

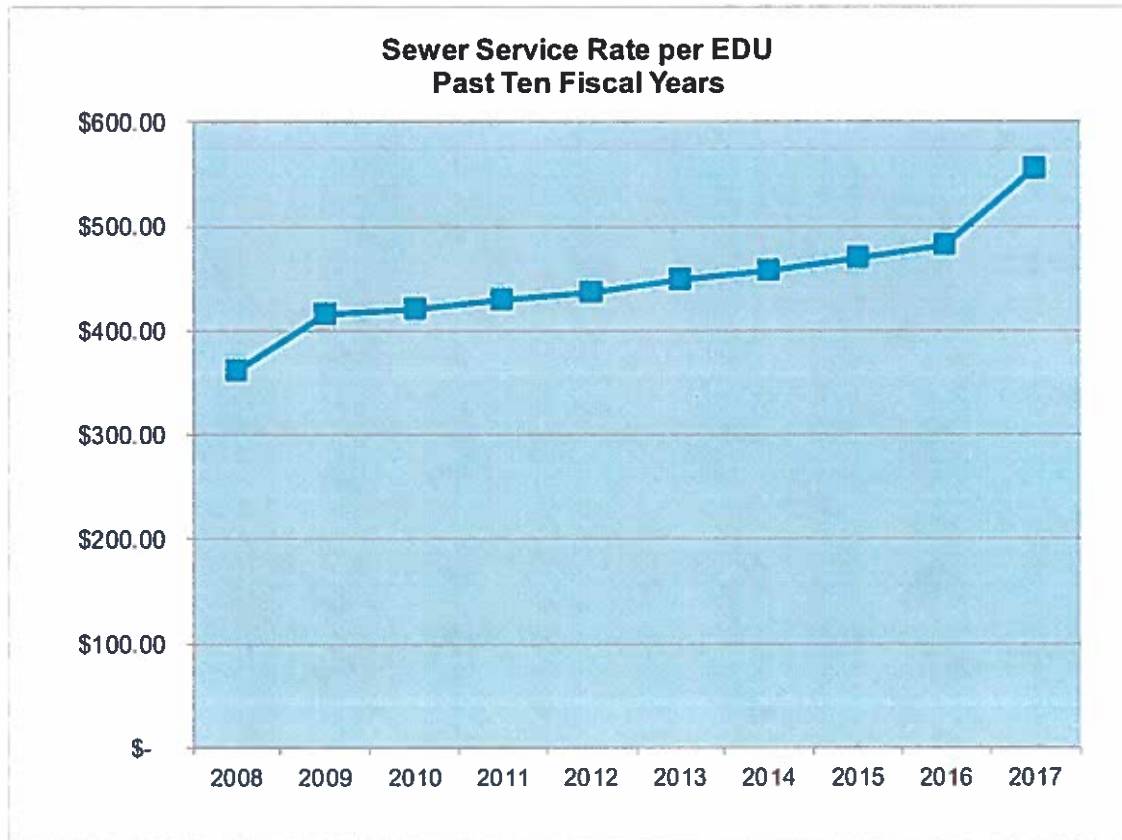


**Historic Sewer Service Revenues**

<b>Fiscal Year Ended June 30</b>	<b>Sewer Service Revenues</b>	<b>Percentage Change</b>
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%
2017	22,501,544	13.1%

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**

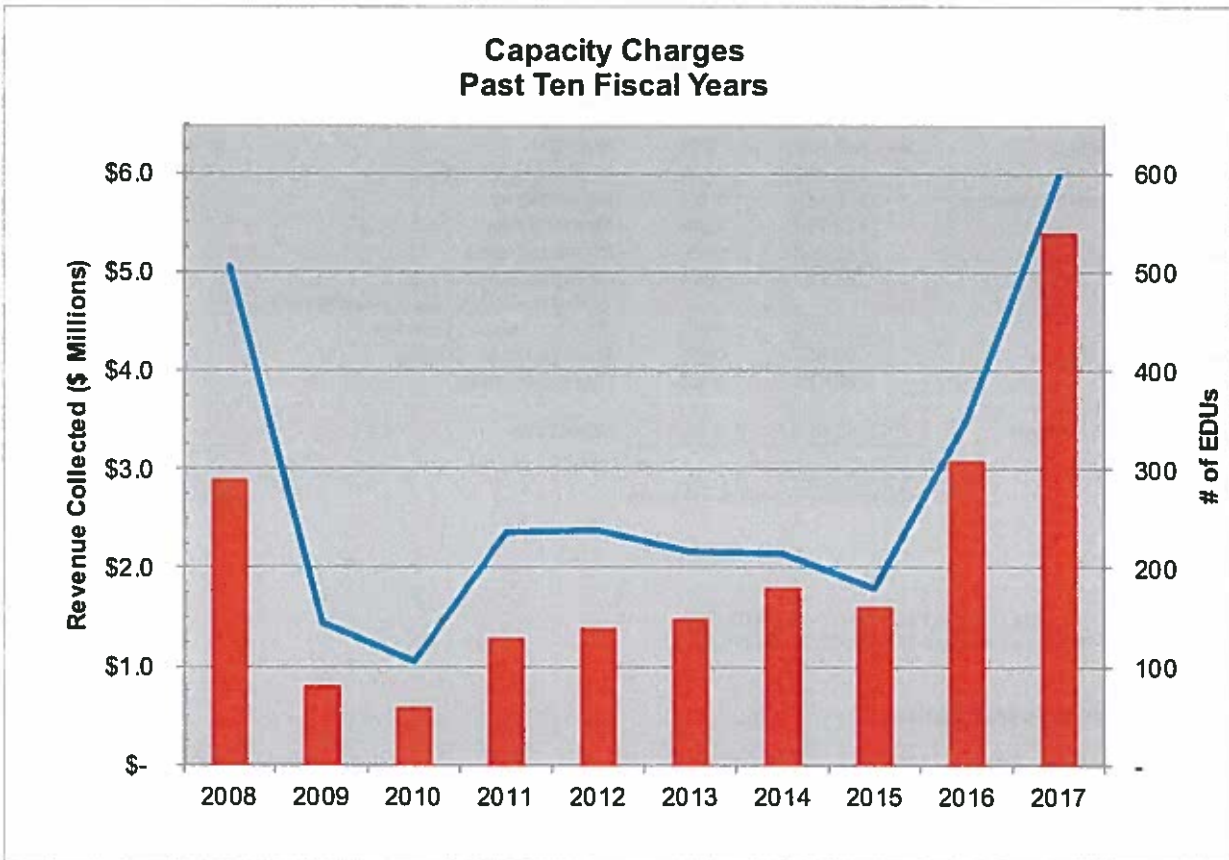
<b>Fiscal Year Ended June 30</b>	<b>Sewer Service Rates</b>	<b>Percentage Change</b>
2008	\$ 362.00	15.0%
2009	416.00	15.0%
2010	421.00	1.2%
2011	429.00	1.9%
2012	435.44	1.5%
2013	448.06	2.9%
2014	457.92	2.2%
2015	469.82	2.6%
2016	482.50	2.7%
2017	554.88	15.0%

**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**

<b>Fiscal Year Ended June 30</b>	<b>Capacity Charges (per EDU)</b>	<b>Total Collected</b>	<b>Number of EDUs</b>
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
2017	8,950	5,355,828	598.4

Source: Napa Sanitation District

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

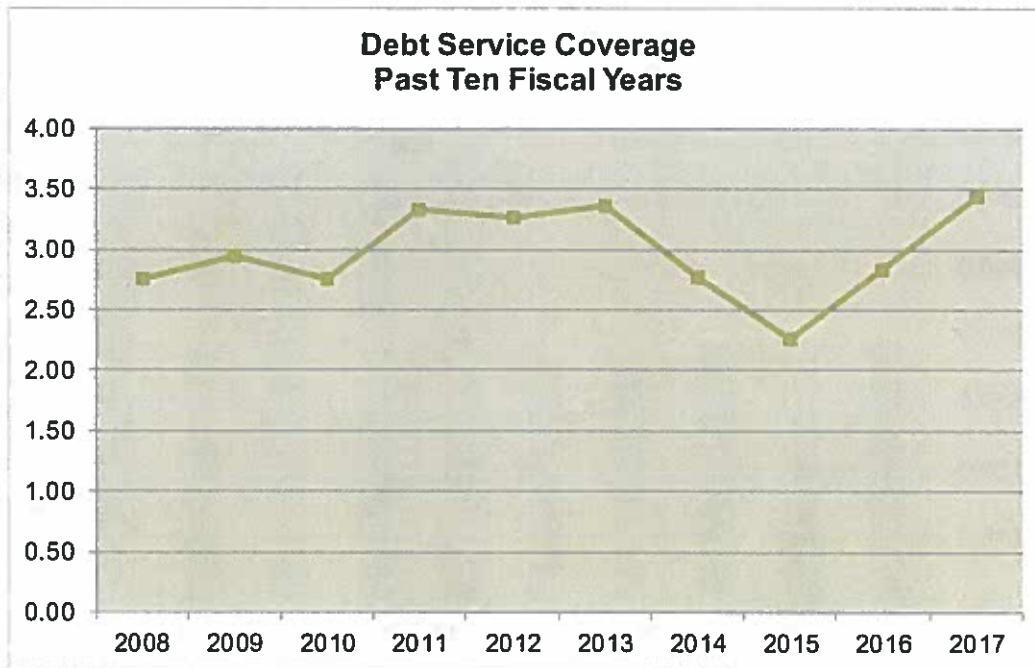
FY 2016-17			FY 2006-07		
Payor	Total Paid	Percentage of Revenue Collected	Payor	Total Paid	Percentage of Revenue Collected
Napa State Hospital	\$ 846,072	3.8%	NVUSD	\$ 182,448	1.5%
NVUSD	285,763	1.3%	Queen of the Valley	126,851	1.1%
Meritage Resorts (Restaurants)	229,609	1.0%	Napa County	104,580	0.9%
Marriott Hotel	173,733	0.8%	Marriott Hotel	98,060	0.8%
Embassy Suites	133,948	0.6%	Embassy Suites	92,264	0.8%
Napa County	128,233	0.6%	Silverado County Club	63,567	0.5%
Fairgrounds	101,710	0.5%	Silverado Country Club Laundromat /		
Queen of the Valley	96,827	0.4%	Frank's Janitorial Service	59,378	0.5%
Avia Hotel	86,728	0.4%	Napa Premium Outlets	40,572	0.3%
			Dey Laboratories	34,808	0.3%
La Tavola Linen Service	60,593	0.3%	Wine Train	33,894	0.3%
Total	<u>\$ 2,143,216</u>	<u>9.7%</u>		<u>\$ 836,422</u>	<u>7.0%</u>

**Notes:**

- (1) Total Revenue Collected 2016-2017: \$22,501,544
- (2) Total Revenue Collected 2006-2007: \$12,003,390

Source: Napa Sanitation District

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

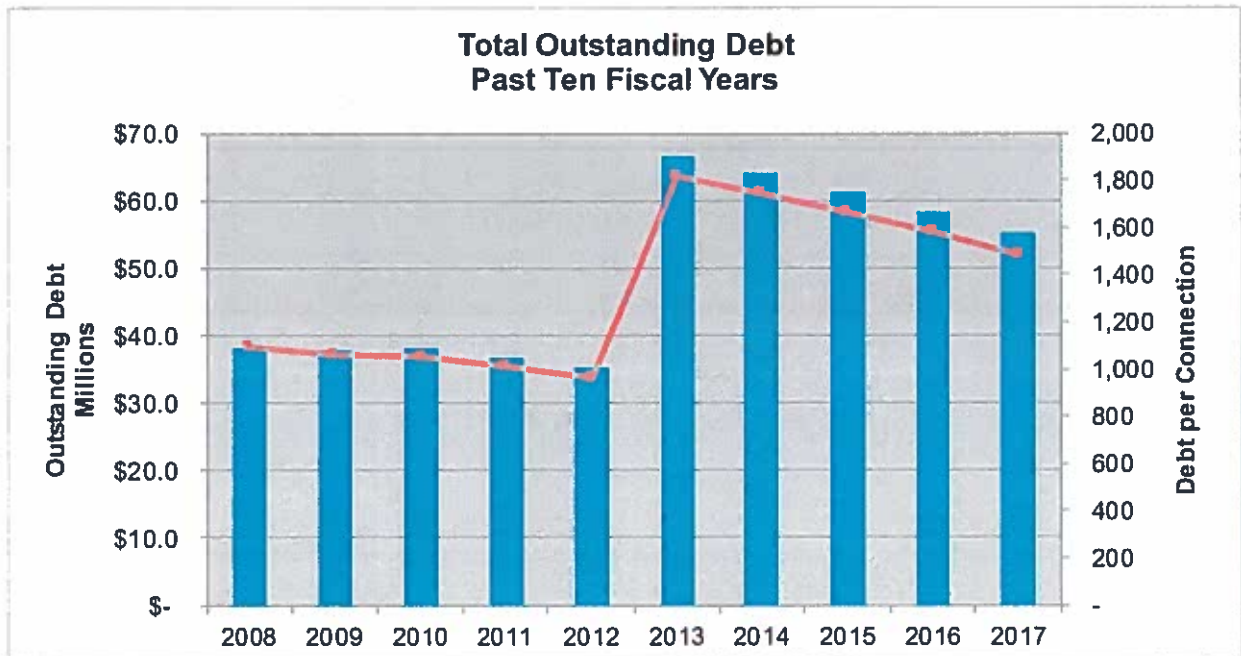


<b>Fiscal Year Ended June 30</b>	<b>Gross Revenues</b>	<b>Operating Expenses</b>	<b>Net Revenues</b>	<b>Debt Service</b>	<b>Debt Service Coverage Ratio</b>
2008	\$ 18,567,927	\$ 10,563,472	\$ 8,004,455	\$ 2,896,708	2.76
2009	19,900,016	10,983,408	8,916,608	3,033,147	2.94
2010	18,828,062	11,006,100	7,821,962	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
2017	29,845,748	13,443,268	16,402,480	4,767,781	3.44

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
	Certificates of Participation	SRFs			
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
2017	54,015,923	1,329,854	55,345,777	37,369	1,481

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>
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%
2017	142,235	9,357,782,885	65,791	20,019	3.6%

**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), 9/15/17

Source: County of Napa Comprehensive Annual Financial Report for FY 2016/17

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

FY 2016-17			FY 2007-08		
Employer	Employees	Percentage of Total County Employees <sup>1</sup>	Employer	Employees	Percentage of Total County Employees <sup>2</sup>
Napa State Hospital	2,370	3.28%	Napa State Hospital	2,300	1.76%
County of Napa	1,465	2.03%	Napa Valley Unified School District	1,603	1.23%
St. Helena Hospital - Napa Valley	1,314	1.82%	County of Napa	1,339	1.02%
Napa Valley Unified School District	1,304	1.80%	Owens Corning Culture Stone	1,200	0.92%
Trinchero Family Estates	1,050	1.45%	Queen of the Valley Hospital	1,106	0.85%
Queen of the Valley Hospital	1,000	1.38%	Veterans' Home of California	975	0.75%
Veterans' Home of California	765	1.06%	St. Helena Hospital	705	0.54%
Treasury Wine Estate	723	1.00%	Trinchero Family Estates	669	0.51%
Wal-Mart - Napa and American Canyon	621	0.86%	Foster's Wine Estates	650	0.50%
City of Napa	458	0.63%	Pacific Union College	582	0.45%
Total	11,070	15.31%		11,129	8.53%

**Notes:**

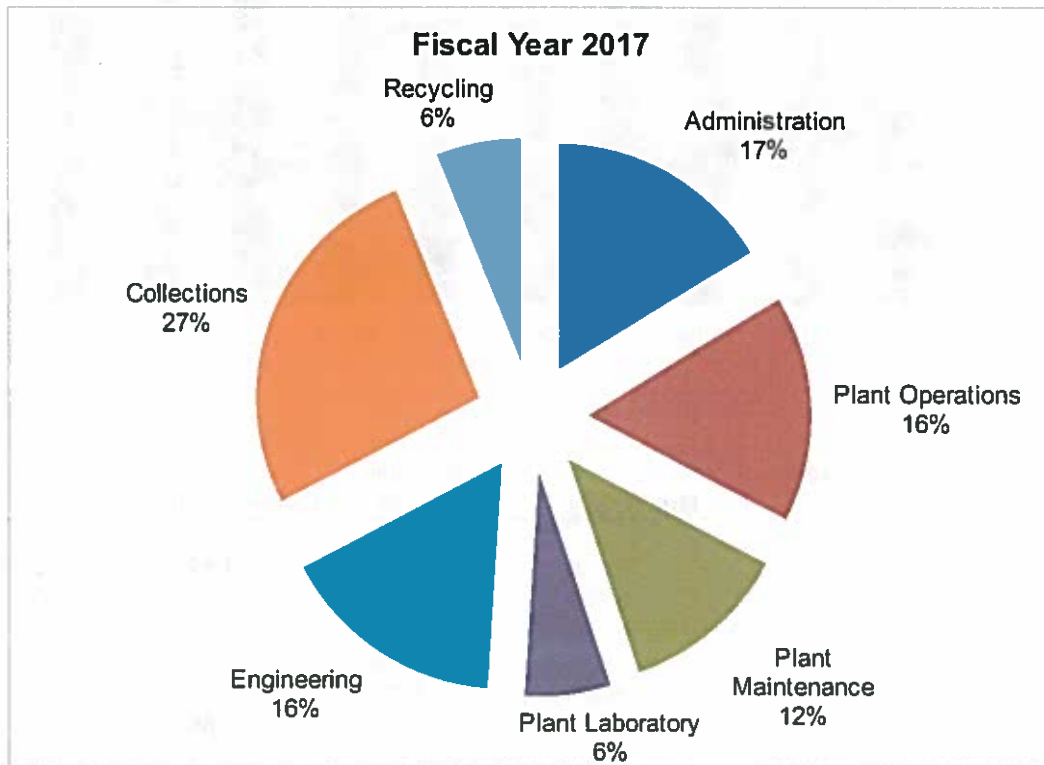
- <sup>1</sup> Total Napa County Employment 2016-2017: 72,300  
<sup>2</sup> Total Napa County Employment 2007-2008: 130,666

**Sources:**

State of California Employment Development Department: <http://www.labormarketinfo.edd.ca.gov/>  
North Bay Business Journal: <http://www.northbaybusinessjournal.com/>  
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**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	10	9	10	8	9	9	9	8	9	8
Plant Operations	9	9	9	9	8	9	9	9	9	8
Plant Maintenance	4	4	5	5	5	5	5	5	6	6
Plant Laboratory	4	4	4	4	4	4	4	4	4	3
Engineering	5	5	6	6	6	6	6	5	6	8
Collections	13	12	13	13	13	13	13	13	13	13
Recycling	3	4	4	4	4	4	3	3	3	3
<b>Total Employees</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>49</b>
<b>Approved FTEs</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>	<b>53</b>



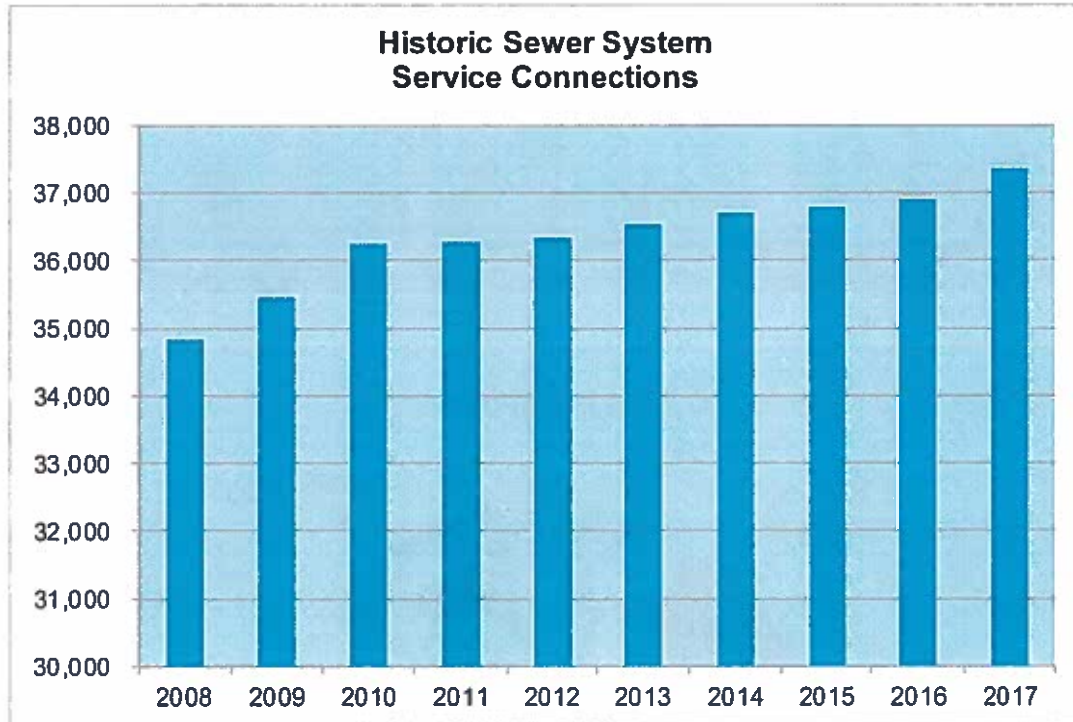
**Note:**

Administration includes General Manager, Administrative Staff, and Safety/Training/Fleet Officer.

Engineering includes, Engineers, Asset Management Analyst, and Pollution Prevention/Outreach Coordinator.

**Source:** Napa Sanitation District

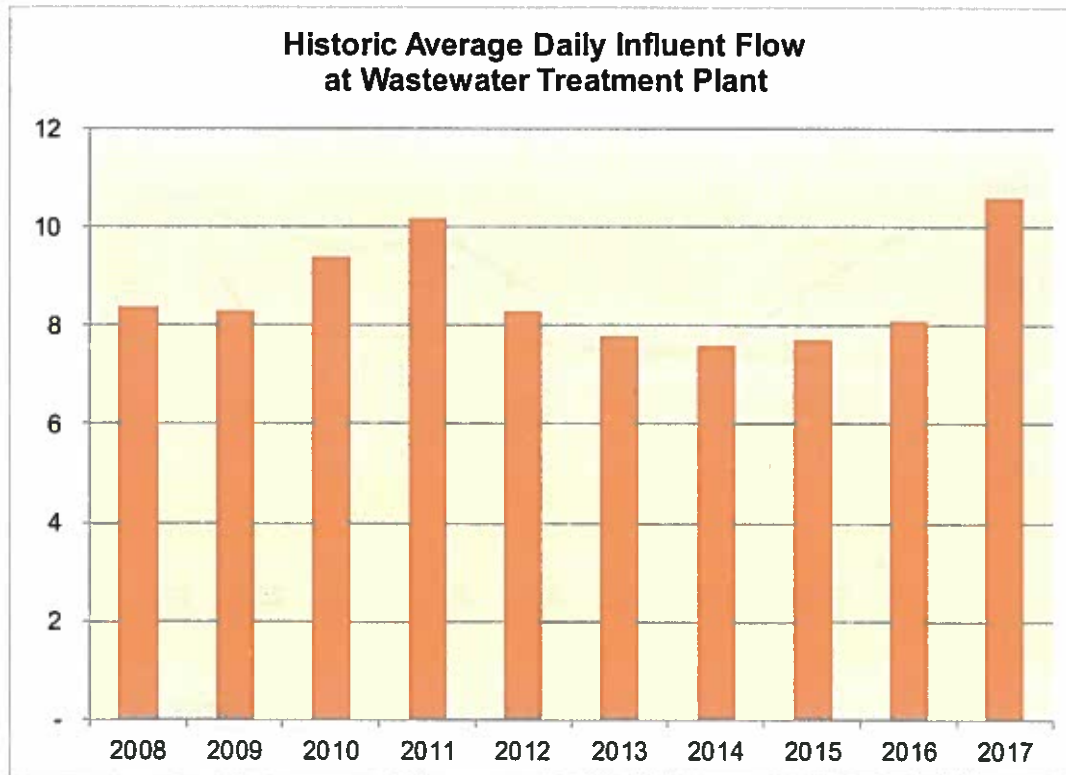
**NAPA SANITATION DISTRICT  
HISTORIC SEWER SYSTEM SERVICE CONNECTIONS  
AND EQUIVALENT DWELLING UNITS (EDUs)  
PAST TEN FISCAL YEARS**



<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>
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
2017	23,788	8,697	4,884	37,369	40,707

Source: Napa Sanitation District

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



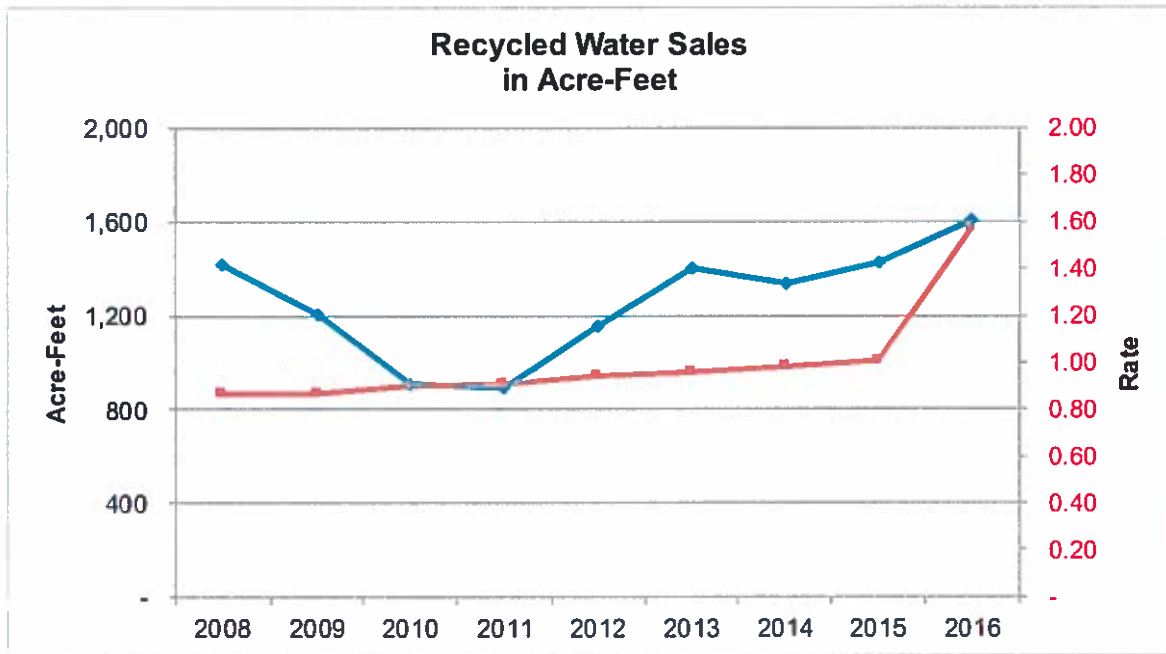
Fiscal Year Ended June 30	Daily Average Flow (MGD)	Increase/ Decrease
2008	8.4	6.3%
2009	8.3	-1.2%
2010	9.4	13.3%
2011	10.2	8.5%
2012	8.3	-18.6%
2013	7.8	-6.0%
2014	7.6	-2.6%
2015	7.7	1.3%
2016	8.1	4.9%
2017	10.6	23.6%

**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
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
2016	1,603	522	1.57

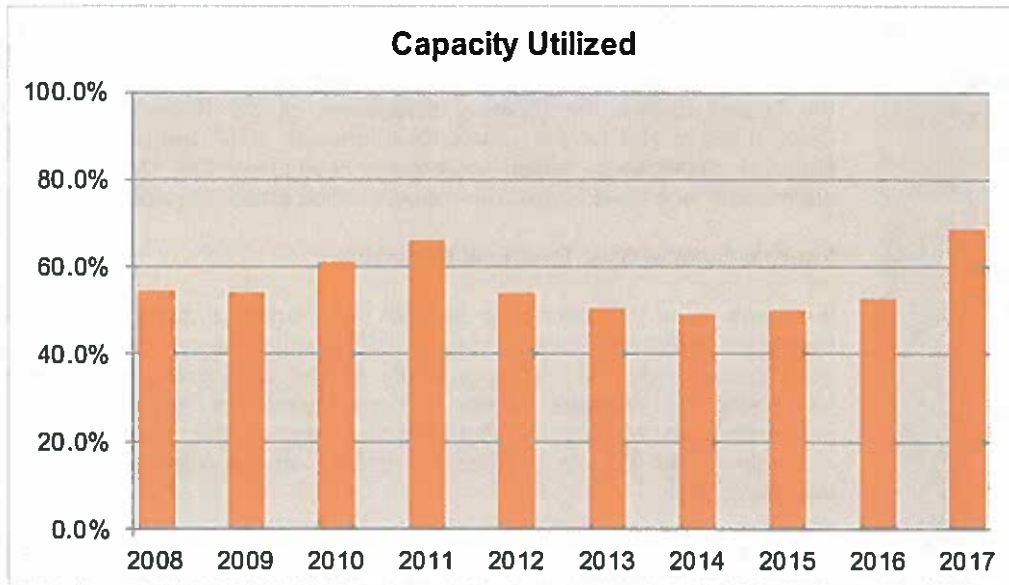
**Notes:**

1 Acre-Foot = .325851 Million Gallons

Source: Napa Sanitation District

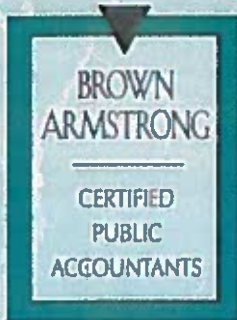
**NAPA SANITATION DISTRICT  
OPERATING AND CAPITAL INDICATORS  
PAST TEN FISCAL YEARS**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Miles of Sewer Lines	267.64	268.60	268.95	269.05	270.00	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	3	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)	8.4	8.3	9.4	10.2	8.3	7.8	7.6	7.7	8.1	10.6
Capacity Utilized	54.5%	53.9%	61.0%	66.2%	53.9%	50.6%	49.4%	50.0%	52.6%	68.8%



Source: Napa Sanitation District





# 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

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5250 GLAREMONT  
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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

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, 2017, 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 27, 2017.

### **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.

### **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 27, 2017

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