



NAPA SANITATION DISTRICT NAPA, CALIFORNIA



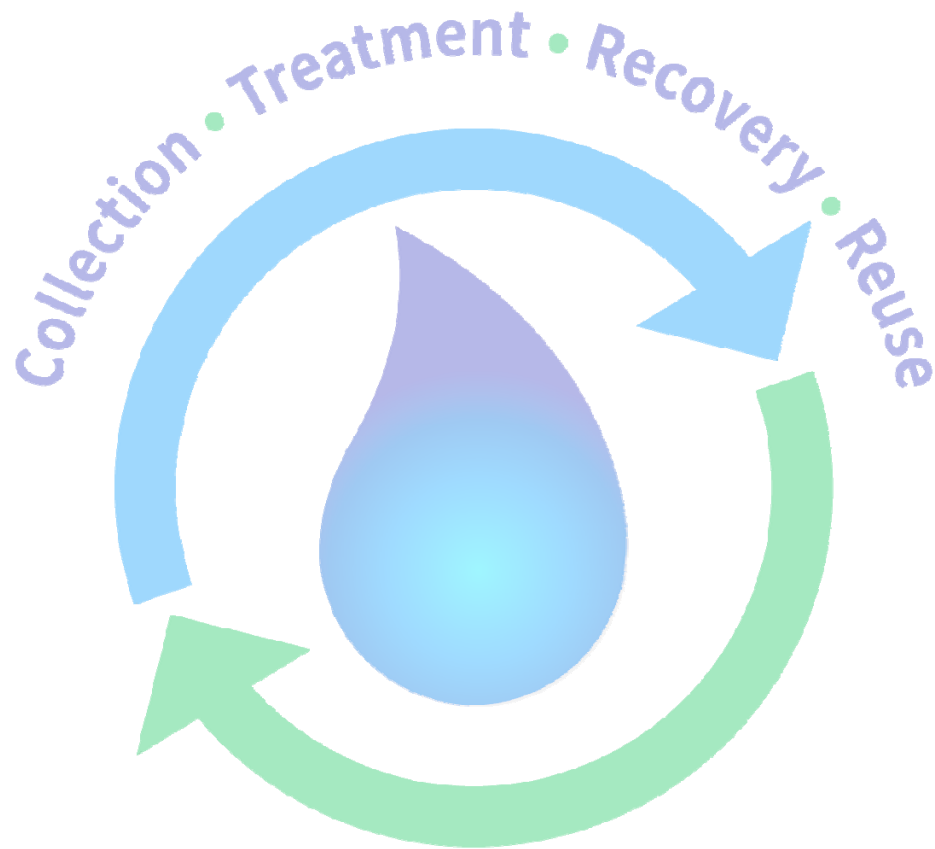
COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended
June 30, 2018



www.napasandistrict.com



NapaSan

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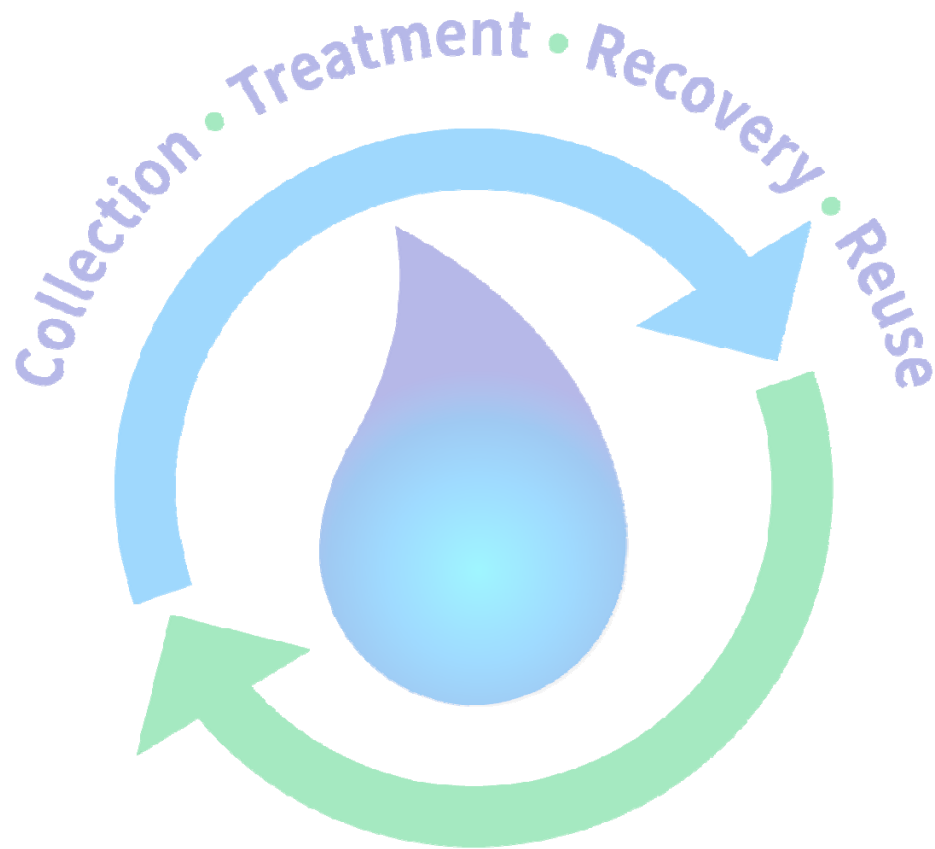
**NAPA SANITATION DISTRICT
NAPA, CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

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

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

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



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**NAPA SANITATION DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

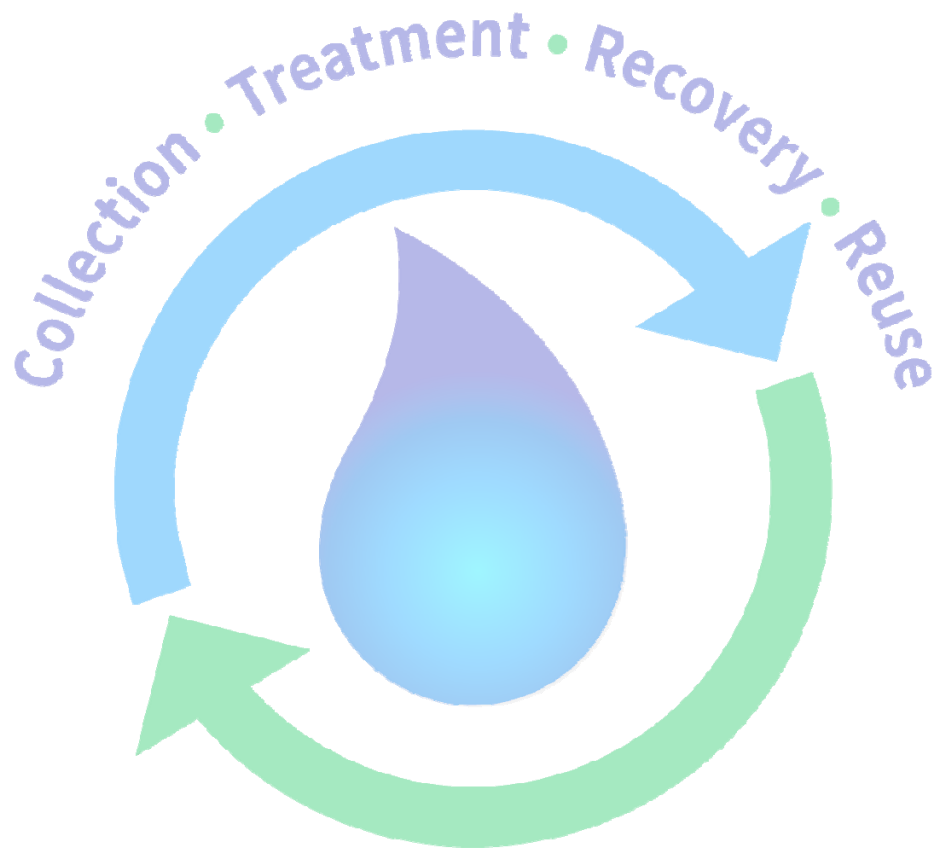
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INTRODUCTORY SECTION



NapaSan

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November 27, 2018

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, 2018. 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, 2018, 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, 2018, 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, 2017

Christopher P. Morill

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

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 (the Board). 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 Board of County 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 8.5 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.

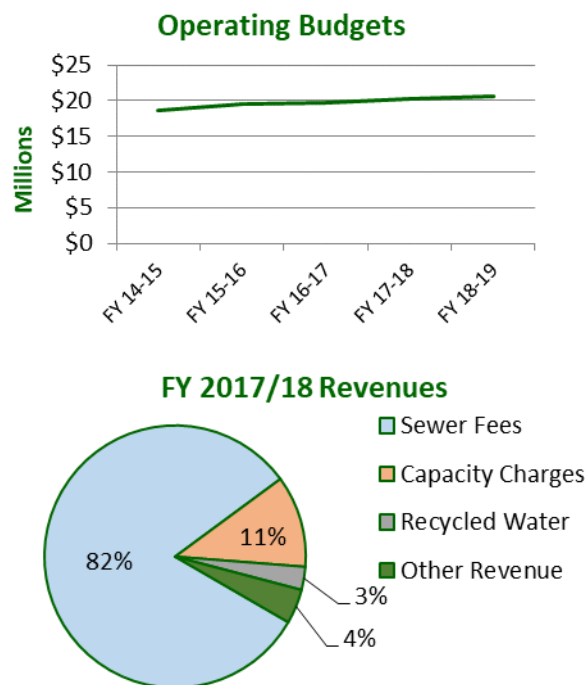
Financial Plan

NapaSan’s operating budget for Fiscal Year (FY) 2017/18 was \$20.2 million (including debt service and excluding intrafund transfers); the FY 2018/19 operating budget increased by 0.2% to \$20.6 million.

In addition to the operating budget, NapaSan has a capital budget based upon new and replacement infrastructure needs. A \$25,018,300 capital budget was adopted at the beginning of FY 2017/18; this budget was increased by \$8,767,200 for projects carried forward from FY 2016/17 and for adjustments made to the 10-Year Capital Improvement Plan (CIP).

NapaSan’s 10-Year CIP approved in FY 2017/18 includes 243 construction projects and capital equipment purchases totaling more than \$176 million over the next 10 years. The new plan adopted for FY 2018/19 includes a continuation of the recommendations of the new Treatment Plant Master Plan, replacement and rehabilitation of sewer pipelines in the collection system and expansions of the recycled water storage system and totals almost \$244 million.

As shown in the pie chart below, most of NapaSan’s operating revenue comes from sewer fees. 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 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 Consumer Price Index. 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. In FY 2018/19, a fee increase of 6.0% was approved.

Sewer Service Charges

	Charge per EDU	% Increase
FY97-FY06	\$274.00	
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%
FY19	\$676.38	6.0%

Capacity Charges

Capacity charges, sometimes referred to as “connection fees” or “impact fees,” are fees paid for the issuance of a permit to connect to or expand use of 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 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
July 1, 2018	\$9,624 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 (the County) is a rural/suburban 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 County, NapaSan provides wastewater services to the City of Napa, the County's largest city (pop. 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 fluctuations in 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 was 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 other postemployment benefits (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 Memorandum of Understanding (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

- 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 (the City) 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 May 2018, NapaSan updated and confirmed its comprehensive set of Financial Policies to govern the overall financial management and health of the District. Policy areas include:

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

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

- **Balanced Budget** – 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.
- Pension and OPEB Liabilities – NapaSan contributes the full Actuarially Determined Contribution for OPEBs to a Trust, and payments in addition to the minimum required California Public Employees’ Retirement System (CalPERS) pension payment are made toward outstanding liabilities.

- 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, quarterly and annually.

A complete copy of the Financial Policies can be found in the Appendix of NapaSan’s Annual Budget, available at www.NapaSan.com.

Awards and Acknowledgements

Award Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Napa Sanitation District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the seventh 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 accounting principles generally accepted in the United States of America (GAAP) and applicable legal requirements.

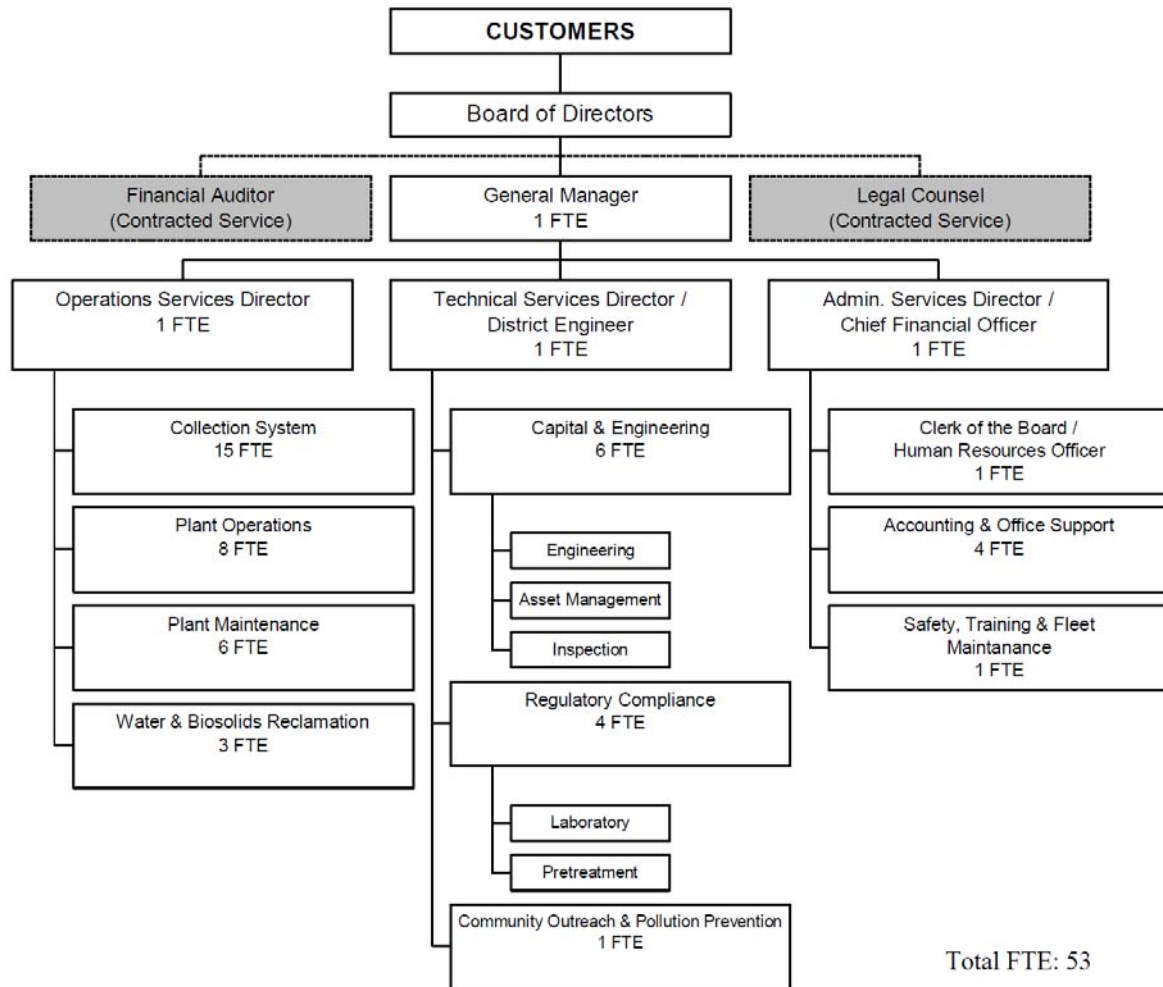
A *Certificate of Achievement for Excellence in Financial Reporting* from the GFOA is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement requirements and staff will submit it to the GFOA to determine eligibility 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 2017/18

Board of Directors

Jill Techel, Chair
Ryan Gregory, Vice-Chair
Peter Mott, Director
David Graves, Director
Mary Luros, 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

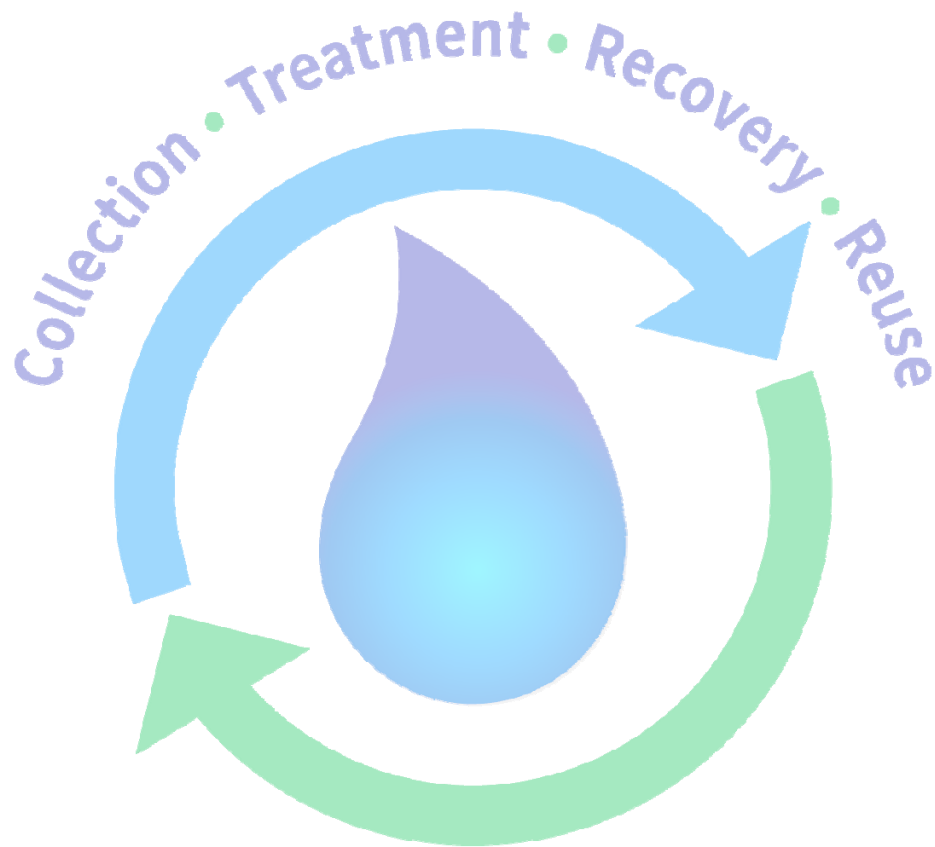
Operations Services

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

Technical Services

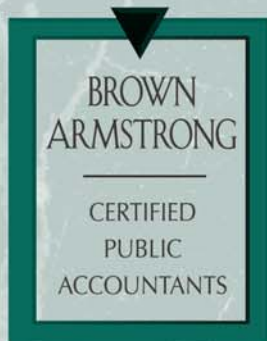
Andrew Damron, Technical Services Director/District Engineer
Matt Lemmon, Capital Program Manager
Chris Francis, Regulatory Compliance Manager

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, 2018, 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 2017 financial statements and, in our report dated November 27, 2017, 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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STOCKTON OFFICE

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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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. Our opinion was not affected by the implementation.

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 – pension, schedule of changes in the net other postemployment benefits (OPEB) liability and related ratios, and schedule of contributions – OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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

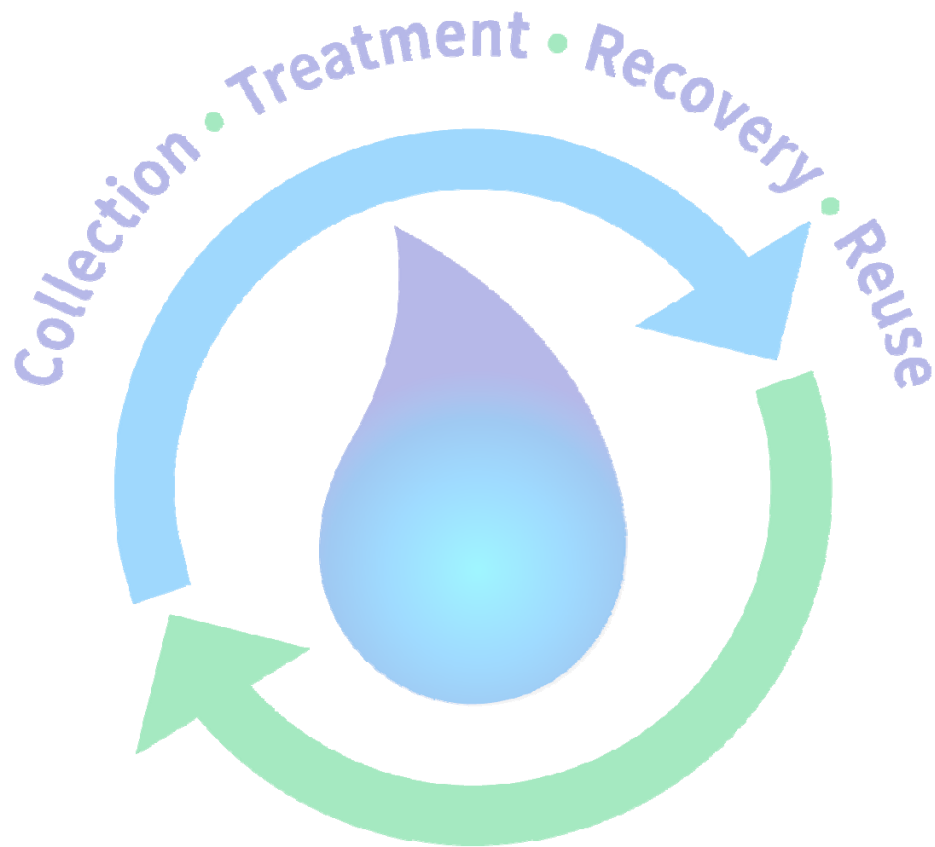
In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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, 2018

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS



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**NAPA SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018. 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 2017/18 fiscal year by \$186,252,045 (*net position*), an increase of \$10,006,938. Of this amount, \$11,650,292 (*unrestricted net position*) may be used to meet ongoing obligations to citizens and creditors and \$174,601,753 is net investment in capital assets.
- Current year results reflect operating income of \$13,310,525, an increase of \$6,639,904 from prior year. Operating expenses decreased by \$2,042,235 while operating revenue increased by \$4,597,669.

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

	2018	2017	2016
Assets:			
Current and other assets	\$ 28,764,325	\$ 26,802,867	\$ 25,221,215
Capital assets, net	225,063,239	219,202,122	217,579,622
Total assets	253,827,564	246,004,989	242,800,837
Deferred outflows of resources:			
Deferred employer pension contributions	7,693,211	4,591,803	3,538,010
Deferred capacity charges	22,121	43,188	-
Deferred loss on refunding of debt	414,060	-	-
Total deferred outflows	8,129,392	4,634,991	3,538,010
Liabilities:			
Current and other liabilities	6,747,920	8,367,871	11,606,705
Long-term liabilities	68,496,038	65,327,768	66,582,206
Total liabilities	75,243,958	73,695,639	78,188,911
Deferred inflows of resources:			
Deferred pension	460,953	699,234	1,159,426
Net position:			
Net investment in capital assets	174,601,753	165,848,241	161,208,132
Unrestricted	11,650,292	10,396,866	5,782,378
Total net position	\$ 186,252,045	\$ 176,245,107	\$ 166,990,510

During the fiscal year ended June 30, 2018, net position increased by \$10,006,938 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

	2018	2017	2016
Operating revenues:			
Sewer charges	\$ 25,806,368	\$ 22,501,544	\$ 19,887,172
Capacity charges	6,532,806	5,355,828	3,139,503
Other charges for services	1,218,115	1,102,248	828,408
	<u>33,557,289</u>	<u>28,959,620</u>	<u>23,855,083</u>
Operating expenses:			
Wastewater collection, treatment, and reclamation	4,192,640	4,442,667	4,301,831
Administration and general	6,981,272	9,000,601	6,623,936
Depreciation	9,072,852	8,845,731	7,751,024
	<u>20,246,764</u>	<u>22,288,999</u>	<u>18,676,791</u>
Operating income	13,310,525	6,670,621	5,178,292
Nonoperating revenue (expense):			
Interest income	246,636	107,091	63,905
Interest expense	(1,454,964)	(1,715,759)	(1,815,759)
Gain on asset disposal	8,372	20,313	14,147
Other revenues	1,112,080	732,179	795,112
	<u>(87,876)</u>	<u>(856,176)</u>	<u>(942,595)</u>
Net income before capital grants and contributions	13,222,649	5,814,445	4,235,697
Capital grants and contributions	3,861,370	3,440,152	17,103,932
Change in net position	17,084,019	9,254,597	21,339,629
Net position, beginning of year, as restated	169,168,026	166,990,510	145,650,881
Net position, end of year	<u>\$ 186,252,045</u>	<u>\$ 176,245,107</u>	<u>\$ 166,990,510</u>

For the fiscal year ended June 30, 2018, operating revenue increased by \$4,597,669 and operating expenses decreased by \$6,639,904. 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 2017/18. In addition, higher capacity charges (\$6,532,806) also contributed to the increase. These were received for the development of the Vista Tulocay apartments and WaterMark Senior Housing project, among others. There was an increase in depreciation by \$227,121 and a decrease in utilities by \$226,767. There was also a decrease in salaries and benefits (\$1,965,998). The decrease in salaries and benefits is a result of the accounting standard implemented by the Governmental Accounting Standards Board for other postemployment benefits (OPEB).

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, 2018, the District's investment in capital assets amounted to \$174,601,753 (net of accumulated depreciation), an increase of \$8,753,512. 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 (\$14,343,860). 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

	2018	2017	2016
Land	\$ 7,426,149	\$ 7,426,149	\$ 7,426,149
Buildings and improvements	178,648,274	164,304,414	115,742,435
Equipment	4,070,259	4,034,808	3,030,322
Construction in progress	16,798,661	24,917,043	54,526,210
Donated sewer lines and other contributed assets	18,119,896	18,519,708	18,519,638
	<u>\$ 225,063,239</u>	<u>\$ 219,202,122</u>	<u>\$ 199,244,754</u>

Major capital projects for the fiscal year include the following:

- Near completion of the design and engineering work for the Browns Valley Trunk project and associated West Napa Pump Station Rehabilitation project.
- Near completion of the project to line the bottom and sides of the two recycled water reservoirs, to increase their recycled water storage capacity.
- Completion of the 2017 Sewer System Rehabilitation project (Basin G – I&I Reduction #1).
- Completion of sewer main rehabilitation on Soscol Avenue between 8th Street and Sousa Lane (formerly Oil Company Road).
- Beginning of construction of the 2018 Sewer System Rehabilitation project.
- Beginning of construction of the 2018 Treatment Plant Improvements project.
- Complete structural repairs in the plant caused by the 2014 South Napa earthquake.
- Complete construction of the recycled water pipeline extension on Coombsville Road in the MST area.
- Purchase of a new combination truck for use in cleaning and maintaining the sewer system.

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

Long-Term Obligations

At June 30, 2018, the District's total long-term obligations were \$71,637,902, compared to \$75,196,178 in the prior year. The long-term obligations amount was comprised of \$14,047,419 of the net pension liability, \$6,550,671 of the net OPEB liability, \$550,411 of compensated absences, and long-term debt of \$50,489,401.

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 77% of the District's operating revenues in fiscal year (FY) 2017/18 coming from sewer service charges collected primarily as assessments on property tax bills. Other significant revenue sources include capacity charges (20% 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 (the Board) 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 2017/18 went up 15% (from \$554.88 to \$638.10), and the sewer rate in FY 2018/19 also will increase 6% (from \$638.10 to \$676.38). The increase in FY 2018/19 is expected to result in just under \$2 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 9.2% 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 fiscal year based on the cost per EDU and an assumed growth rate of 599 EDUs being developed during the fiscal year. There was a 3.5% increase in the capacity charge fee, from \$9,299 to \$9,624 per EDU on July 1, 2018. Annually on July 1, the rate is scheduled to increase with an established inflation measure for capital infrastructure costs. The capacity charge calculation is currently being studied and is expected to be updated during FY 2018/19.

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 calendar year 2017 was \$1.62 per 1,000 gallons. In calendar year 2018, the rate increased to \$1.67. 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. FY 2017/18 sales increased due to increased users of the expanded recycled water system. Additional users are expected to connect to the system in FY 2018/19.

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 2018/19, the District has assumed an interest earnings rate of 1.5%.

Capital grants and contributions are not anticipated to continue in FY 2018/19 as the District has completed the recycled water pipeline expansion along Coombsville Road, and has completed the recycled water reservoir lining project. As the West Napa Pump Station Rehabilitation project is constructed, it is expected that the District will receive Green Project Reserve "loan forgiveness" funding from the State Department of Water Resources and the U.S. Environmental Protection Agency.

FY 2018/19 District revenues from all sources, excluding internal transfers, are expected to be \$35,690,400 (excluding loan proceeds). When compared to FY 2017/18 actual revenues, the FY 2018/19 revenues are projected to be higher, due primarily to the anticipated revenue from sewer fees.

Expense Projections

Salary and benefit expenses, including salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, retirement benefits, and 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 2018/19 are \$9,961,350.

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 2018/19 supplies and services budget of \$6,003,100 is 2.5% lower than the FY 2017/18 budget of \$6,154,300. The decrease is primarily due to the removal of one-time only and carry forward projects from the prior year.

Debt service expenses are projected based on actual principal and interest payment requirements. Debt service is expected to decrease 3.9% to just under \$4.6 million in FY 2018/19 because of the advance refunding of some debt in FY 2017/18. 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 next fiscal year.

Overall, operating expenses for the District in FY 2018/19 are budgeted to be \$20,587,400 (including debt service and excluding intrafund transfers). The capital budget (excluding intrafund transfers) is set at \$26,385,700 for FY 2018/19, although it is anticipated that the capital budget will increase due to unfinished projects in FY 2017/18 being carried forward into FY 2018/19.

Financial Status

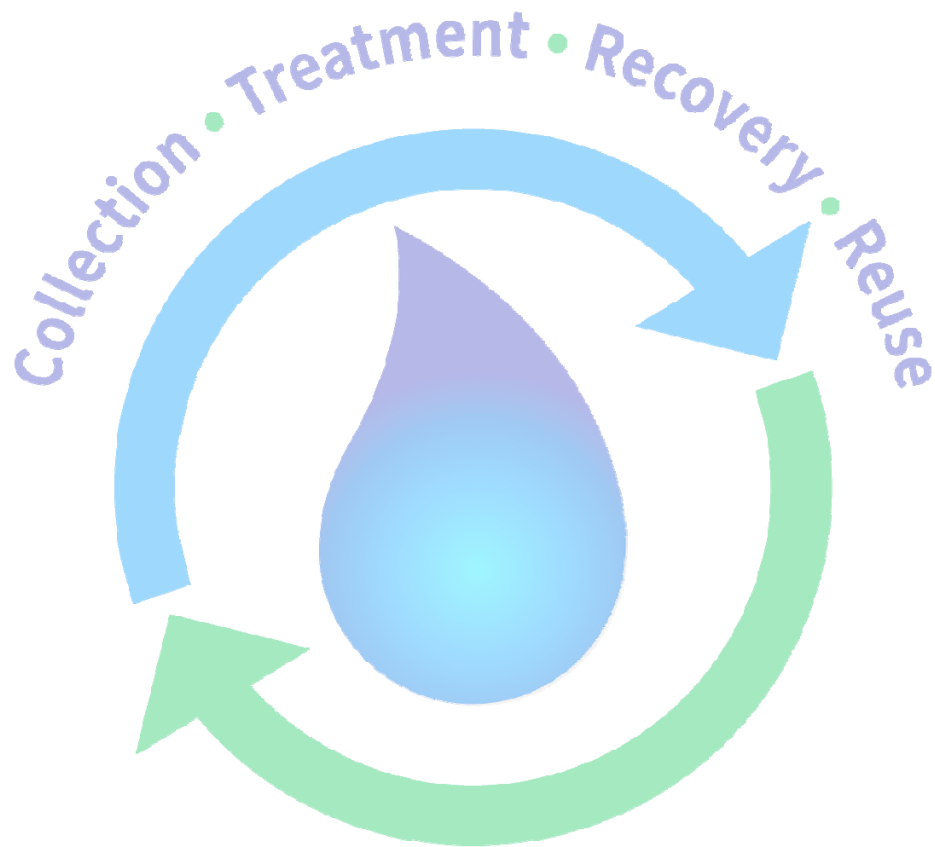
The financial condition of the District remains sound. District operating revenues are stable, although capital expansion revenues (capacity charges) can fluctuate annually based on demand for new connections to the system. As a result of the Board's action to increase sewer service charges, additional 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 OPEB and pension contributions are major contributors to escalating costs in the area of salaries and benefits. Energy and chemical rates in general are expected to rise and 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 decisions to fund fully its OPEB ("Other Postemployment Benefits") Actuarially Determined Contribution (ADC) and increase funding of the pension liability beyond the required minimum payments to California Public Employees' Retirement System (CalPERS), the District has taken additional steps to help improve the long-term financial health of the District.

REQUESTS FOR INFORMATION

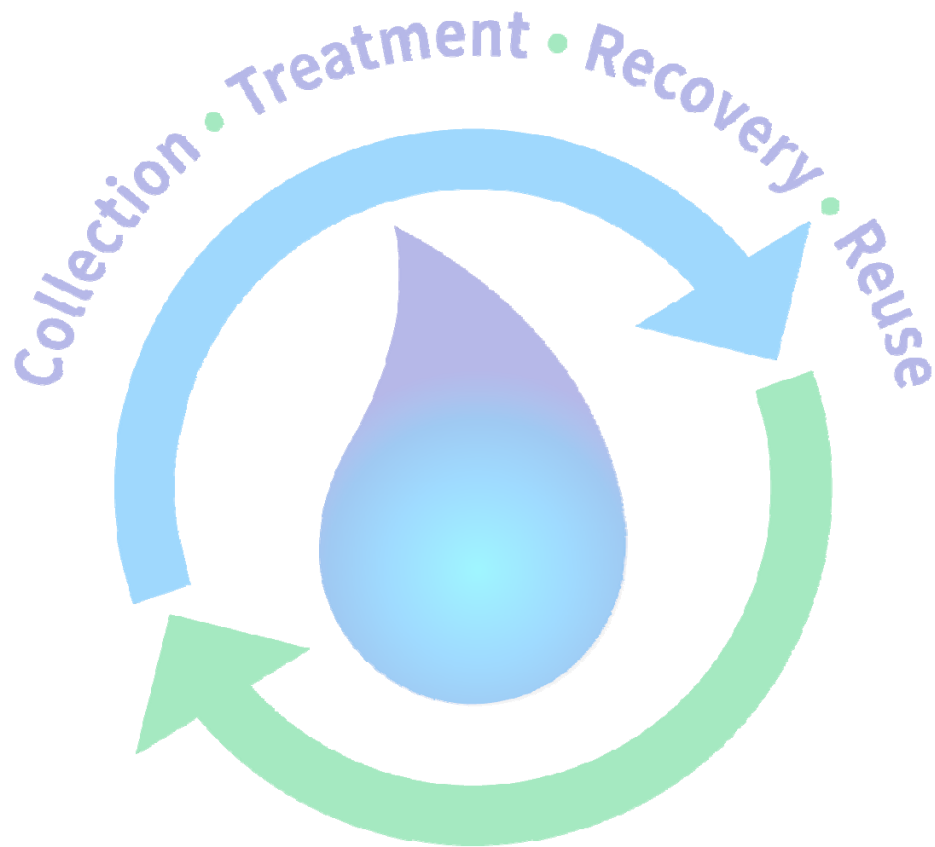
The financial report is designed to provide a general overview of the District's finances for all those with interest in them. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Napa Sanitation District, 1515 Soscol Ferry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



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BASIC FINANCIAL STATEMENTS



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**NAPA SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH COMPARATIVE DATA FOR JUNE 30, 2017)**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Unrestricted assets:		
Cash in County treasury	\$ 26,420,231	\$ 22,532,161
Imprest cash	300	300
Assessments receivable	188,704	166,360
Accounts receivable (net)	1,903,553	1,411,357
Other receivables	35,321	51,193
Inventory	144,939	131,137
Prepaid expenses	10,103	4,542
Net OPEB asset	-	477,468
Restricted cash:		
With fiscal agent	27,915	1,991,896
Flexible spending	<u>33,259</u>	<u>36,453</u>
Total Current Assets	<u>28,764,325</u>	<u>26,802,867</u>
CAPITAL ASSETS		
Nondepreciable	24,224,810	32,343,192
Depreciable, net	<u>200,838,429</u>	<u>186,858,930</u>
Total Capital Assets, Net	<u>225,063,239</u>	<u>219,202,122</u>
Total Assets	<u>253,827,564</u>	<u>246,004,989</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred employer pension contributions	7,693,211	4,591,803
Deferred capacity charges	22,121	43,188
Deferred loss on refunding of debt	<u>414,060</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>8,129,392</u>	<u>4,634,991</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 261,956,956</u></u>	<u><u>\$ 250,639,980</u></u>

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

NAPA SANITATION DISTRICT
STATEMENT OF NET POSITION (Continued)
JUNE 30, 2018
(WITH COMPARATIVE DATA FOR JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 2,398,174	\$ 3,946,054
Salaries and benefits payable	255,187	265,207
Unearned revenue	103,646	104,449
Deposits from others	75,705	10,000
Interest payable	773,344	773,366
Current portion of compensated absences	322,233	331,860
Current portion of long-term debt	<u>2,819,631</u>	<u>2,936,935</u>
Total Current Liabilities	<u>6,747,920</u>	<u>8,367,871</u>
NONCURRENT LIABILITIES		
Liability for compensated absences	228,178	152,445
Net pension liability	14,047,419	12,766,481
Net OPEB liability	6,550,671	-
Long-term debt, including unamortized original issue premium	<u>47,669,770</u>	<u>52,408,842</u>
Total Noncurrent Liabilities	<u>68,496,038</u>	<u>65,327,768</u>
Total Liabilities	<u>75,243,958</u>	<u>73,695,639</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	<u>460,953</u>	<u>699,234</u>
NET POSITION		
Net investment in capital assets	174,601,753	165,848,241
Unrestricted	<u>11,650,292</u>	<u>10,396,866</u>
Total Net Position	<u>186,252,045</u>	<u>176,245,107</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 261,956,956</u></u>	<u><u>\$ 250,639,980</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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)**

	2018	2017
OPERATING REVENUES		
Sewer charges	\$ 25,806,368	\$ 22,501,544
Capacity charges	6,532,806	5,355,828
Other charges for services	1,218,115	1,102,248
Total operating revenues	<u>33,557,289</u>	<u>28,959,620</u>
OPERATING EXPENSES		
Insurance	206,892	191,371
Salaries and benefits	6,213,994	8,179,992
Materials, supplies, and repairs	2,033,300	2,186,340
General and administrative	560,386	625,406
Contractual services	1,274,479	1,148,531
Utilities	884,861	1,111,628
Depreciation	9,072,852	8,845,731
Total operating expenses	<u>20,246,764</u>	<u>22,288,999</u>
Operating income	<u>13,310,525</u>	<u>6,670,621</u>
NONOPERATING REVENUE (EXPENSE)		
Lease income	725,626	718,251
Taxes	(28,710)	(26,545)
Sales proceeds of assets	8,372	20,313
Interest income	246,636	107,091
Interest expense	(1,454,964)	(1,715,759)
Other nonoperating revenue	415,164	40,473
Total nonoperating revenue (expense)	<u>(87,876)</u>	<u>(856,176)</u>
Income before capital contributions	13,222,649	5,814,445
Capital Grants and Contributions	<u>3,861,370</u>	<u>3,440,152</u>
CHANGE IN NET POSITION	17,084,019	9,254,597
NET POSITION, BEGINNING OF YEAR	176,245,107	166,990,510
PRIOR PERIOD ADJUSTMENT	<u>(7,077,081)</u>	<u>-</u>
NET POSITION, BEGINNING OF YEAR - RESTATED	<u>169,168,026</u>	<u>166,990,510</u>
NET POSITION, END OF YEAR	<u><u>\$ 186,252,045</u></u>	<u><u>\$ 176,245,107</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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)**

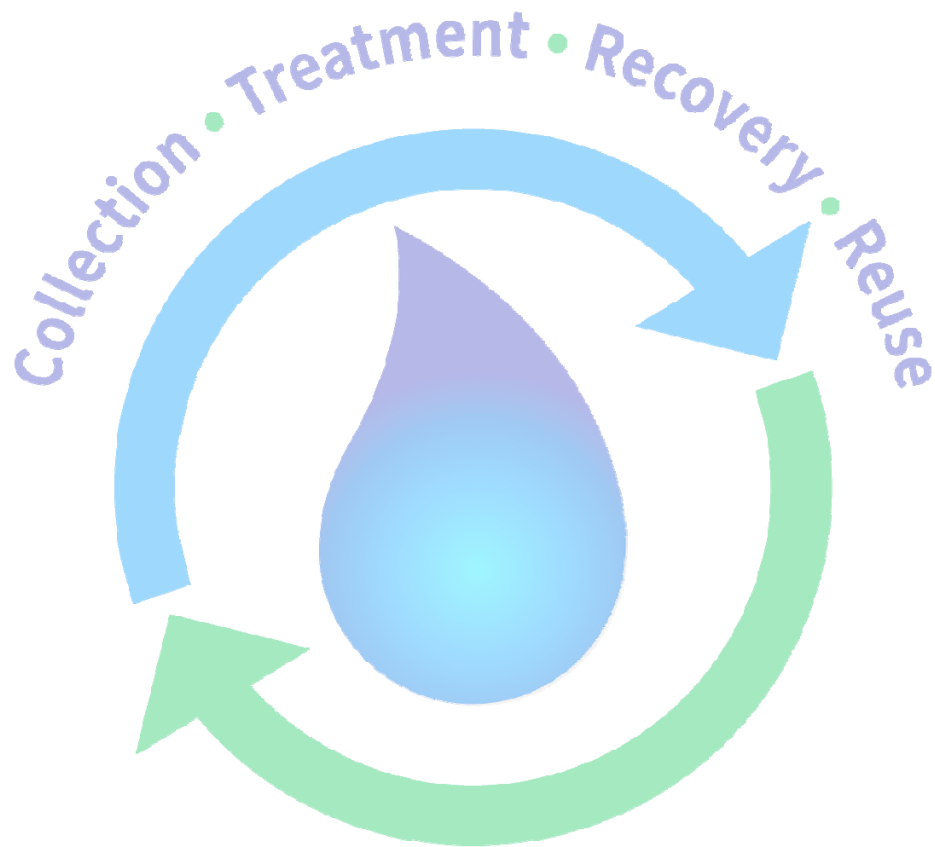
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 33,124,326	\$ 33,793,701
Payments to suppliers	(6,321,094)	(8,302,430)
Payments to employees	(8,865,486)	(8,398,682)
Net cash provided by operating activities	<u>17,937,746</u>	<u>17,092,589</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax expense	(28,710)	(26,545)
Reimbursements and rebates received	415,164	40,473
Net cash provided by noncapital financing activities	<u>386,454</u>	<u>13,928</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of principal on long-term debt	(4,856,376)	(3,015,236)
Net proceeds from sale of capital assets	8,372	20,313
Net purchase of capital assets	(14,213,983)	(10,089,781)
Capital contributions	3,141,384	3,061,702
Interest paid	(1,454,964)	(1,715,759)
Net cash used by capital and related financing activities	<u>(17,375,567)</u>	<u>(11,738,761)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	246,636	107,091
Lease income	725,626	718,251
Net cash provided by investing activities	<u>972,262</u>	<u>825,342</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,920,895	6,193,098
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,560,810</u>	<u>18,367,712</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 26,481,705</u></u>	<u><u>\$ 24,560,810</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:		
Cash and cash equivalents in current assets	\$ 26,420,531	\$ 22,532,461
Cash and cash equivalents in restricted assets	61,174	2,028,349
Total Cash and Cash Equivalents	<u><u>\$ 26,481,705</u></u>	<u><u>\$ 24,560,810</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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 13,310,525	\$ 6,670,621
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,072,852	8,845,731
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(492,196)	4,830,073
Other receivables	(6,472)	12,253
Inventory	(13,802)	(17,110)
Prepaid expenses	(5,561)	22,808
Net OPEB asset	477,468	(236,578)
Deferred outflows of resources	(3,494,401)	(1,096,981)
Increase (decrease) in liabilities:		
Accounts payable	(266,964)	(1,473,466)
Salaries and benefits payable	(10,020)	(99,437)
Unearned revenue	(803)	51,941
Deposits from others	65,705	(8,245)
Compensated absences payable	66,106	51,171
Net OPEB liability	(526,410)	-
Deferred inflows of resources	(238,281)	(460,192)
Total adjustments	<u>4,627,221</u>	<u>10,421,968</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 17,937,746</u></u>	<u><u>\$ 17,092,589</u></u>
Noncash Investing, Capital, and Financing Activities:		
Contribution of capital assets	<u><u>\$ 719,986</u></u>	<u><u>\$ 378,450</u></u>

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

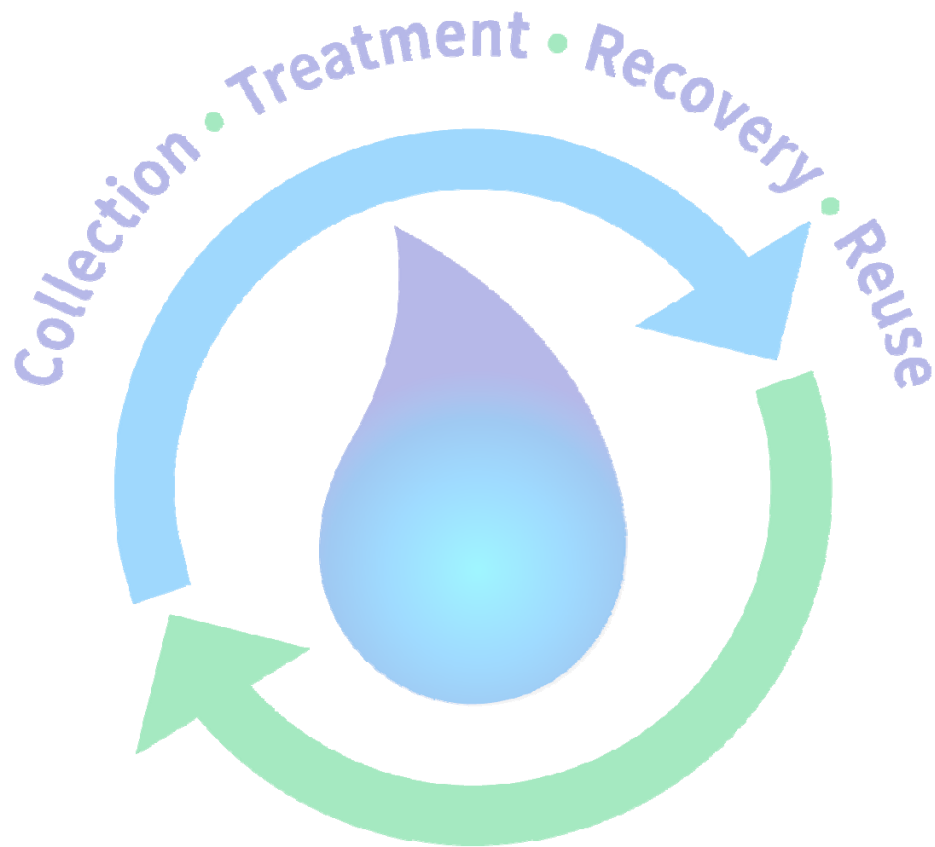


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NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018**

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 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 cost, 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 expenses.

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 capacity charges. The resolution establishing the District for sewer capacity charges 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 of personal leave 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, 2018, was \$550,411. The current portion of liability was estimated using prior year actual expense.

J. Pensions

For purposes of measuring the net pension liability, 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. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

L. 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 several items which qualify for reporting in this category: deferred pension contributions, deferred loss on refunding of debt, and deferred capacity charges.

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.

M. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Position (Continued)

- *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.

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

N. 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.

O. New Accounting Pronouncements – Current Year

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 adopted the implementation of GASB Statement No. 75 as of the date of the financial statements. See note disclosure at Note 6.

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

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

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

P. New Accounting Pronouncements – Future Years

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. New Accounting Pronouncements – Future Years (Continued)

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. 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.

Governmental Accounting Standards Board Statement No. 88

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District has not fully judged the impact of implementation of GASB Statement No. 88 on the financial statements.

Governmental Accounting Standards Board Statement No. 89

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

Governmental Accounting Standards Board Statement No. 90

GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not fully judged the impact of implementation of GASB Statement No. 90 on the 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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

At June 30, 2018, total cash and investments held by the District were as follows:

	Unrestricted	Restricted	Total
Cash held in County treasury	26,420,231	\$ -	\$ 26,420,231
Imprest cash	300	-	300
Investments with fiscal agent	-	27,915	27,915
Flexible spending	-	33,259	33,259
Total	<u>\$ 26,420,531</u>	<u>\$ 61,174</u>	<u>\$ 26,481,705</u>

Restricted cash represents an amount restricted for debt service of \$27,915.

Cash with fiscal agent investments was as follows:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	Weighted Average Maturity (Years)
Cash with Fiscal Agent						
Federated Mutual Funds	Variable	On Demand	\$ 27,915	\$ 27,915	\$ 27,915	--

Required disclosures for the District's deposit and investment risks for the cash held in the County Treasury at June 30, 2018, 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.

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 accounting principles generally accepted in the United States of America. 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, 2018:

The 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, 2018, are summarized as follows:

	Balance July 1, 2017	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 7,426,149	\$ -	\$ -	\$ -	\$ 7,426,149
Construction in progress	24,917,043	8,766,207	(72,859)	(16,811,730)	16,798,661
Total capital assets, not being depreciated	32,343,192	8,766,207	(72,859)	(16,811,730)	24,224,810
Capital assets, being depreciated:					
Buildings and improvements	249,060,343	5,158,897	(205,396)	16,632,063	270,645,907
Equipment	7,849,000	363,326	(276,117)	179,667	8,115,876
Donated assets	53,752,582	719,986	-	-	54,472,568
Total capital assets, being depreciated	310,661,925	6,242,209	(481,513)	16,811,730	333,234,351
Less accumulated depreciation for:					
Buildings and improvements	(84,755,929)	(7,447,100)	205,396	-	(91,997,633)
Equipment	(3,814,192)	(505,954)	274,529	-	(4,045,617)
Donated assets	(35,232,874)	(1,119,798)	-	-	(36,352,672)
Total accumulated depreciation	(123,802,995)	(9,072,852)	479,925	-	(132,395,922)
Total capital assets, being depreciated, net	186,858,930	(2,830,643)	(1,588)	16,811,730	200,838,429
Total capital assets, net	\$ 219,202,122	\$ 5,935,564	\$ (74,447)	\$ -	\$ 225,063,239

NOTE 4 – LONG-TERM DEBT

Individual issues of Bonds, Notes, and Certificates of Participation outstanding at June 30, 2018:

	Maturity	Interest Rates ¹	Annual Principal Installments	Original Issue Date	Original Issue	Outstanding June 30, 2018
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	\$ 31,050,000
2017 Revenue Refunding Bonds Purpose: Advance refund of outstanding 2009 Certificates of Participation Series B Wastewater Project	2028	3.00%-4.00%	\$1,340,000-\$1,900,000	12/1/2017	\$ 14,185,000	\$ 14,185,000
State Revolving Fund (SRF) Purpose: Summit Avenue/Ora Drive	2022	2.50%	\$34,421-\$58,777	12/13/2003	\$ 901,376	\$ 108,327
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	\$ 814,697
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	\$ 279,895

¹ Imputed rates are used for the SRF Loans for the East Spring Street Montecito Boulevard Sewer Improvement Project.

NOTE 4 – LONG-TERM DEBT (Continued)

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

	Balance July 1, 2017	Additions	Retirement	Balance June 30, 2018	Due Within One Year
SRF Loans	\$ 1,329,854	\$ -	\$ (126,935)	\$ 1,202,919	\$ 129,631
2009 Certificates of Participation Series B	18,825,000	-	(18,825,000)	-	-
2012 Certificates of Participation Series A	32,555,000	-	(1,505,000)	31,050,000	1,565,000
2017 Revenue Refunding Bonds	-	14,185,000	-	14,185,000	1,125,000
Add: Unamortized Original Issue Premium	2,635,923	2,071,429	(655,870)	4,051,482	-
Compensated Absences	484,305	75,733	(9,627)	550,411	322,233
Net Pension Liability	12,766,481	2,862,525	(1,581,587)	14,047,419	-
Net OPEB Liability	6,599,615	1,074,262	(1,123,206)	6,550,671	-
Total	<u>\$ 75,196,178</u>	<u>\$ 20,268,949</u>	<u>\$ (23,827,225)</u>	<u>\$ 71,637,902</u>	<u>\$ 3,141,864</u>

As of June 30, 2018, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30,	Business-Type Activities					
	SRF Loans		Certificates of Participation		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 129,631	\$ 24,196	\$ 1,565,000	\$ 1,091,775	\$ 1,125,000	\$ 652,225
2020	132,386	21,441	1,625,000	1,027,975	1,230,000	546,900
2021	135,200	18,627	1,690,000	961,675	1,280,000	496,700
2022	138,075	15,752	1,765,000	892,575	1,330,000	444,500
2023	141,013	12,814	1,830,000	820,675	1,380,000	390,300
2024-2028	434,744	33,160	10,350,000	2,928,525	7,840,000	985,650
2029-2033	91,869	1,513	12,225,000	1,042,538	-	-
Total	<u>\$ 1,202,919</u>	<u>\$ 127,503</u>	<u>\$ 31,050,000</u>	<u>\$ 8,765,738</u>	<u>\$ 14,185,000</u>	<u>\$ 3,516,275</u>

In December 2017, the District issued \$14,185,000 in bonds to advance refund 2009B Certificates of Participation, which includes a premium of \$286,619. Due to the advance refunding of the 2009B Certificates of Participation, a deferred outflow of resources (refunding of debt) of \$457,165 was calculated and will be amortized over the life of the debt. The District pledged 100% of revenues held in the "Revenue Fund" as security for the new bond.

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.

NOTE 5 – PENSION PLANS (Continued)

A. Deferred Compensation Plan (Continued)

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 (COLAs), 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 COLAs 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.

The Plans' provisions and benefits in effect at June 30, 2018, 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	43.181%
Number of Active Members	34

NOTE 5 – PENSION PLANS (Continued)**B. Defined Benefit Pension Plan Description** (Continued)**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	10.052%
Number of Active Members	6

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	7.141%
Number of Active Members	13

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

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plans were as follows:

	<u>Miscellaneous</u>
Contributions - Employer	\$ 586,770
Contributions - Employee (Paid by Employer)	370,076

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

As of June 30, 2018, the District reported net pension liability for its proportionate share of the net pension liability of the Plans as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 14,047,419
Total Net Pension Liability	<u>\$ 14,047,419</u>

NOTE 5 – PENSION PLANS (Continued)**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

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, 2017, 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, 2016, rolled forward to June 30, 2017, 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 Plans as of June 30, 2017 and 2018, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2017	0.36750%
Proportion - June 30, 2018	0.35635%
Change - Increase (Decrease)	-0.01115%

For the year ended June 30, 2018, the District recognized pension expense of \$6,039,811. At June 30, 2018, 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	\$ 14,826	\$ 212,406
Changes of Assumptions	1,839,528	140,266
Differences between Projected and Actual Investment Earnings	416,025	-
Differences between Employer's Contributions and Proportionate Share of Contributions	606,479	-
Change in Employer's Proportion	3,154,315	108,281
Pension Contributions Made Subsequent to Measurement Date	1,662,038	-
Total	<u>\$ 7,693,211</u>	<u>\$ 460,953</u>

\$1,662,038 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	
2019	\$ 3,608,555
2020	1,366,567
2021	842,099
2022	(247,001)
2023	-
Thereafter	-
Total	<u>\$ 5,570,220</u>

NOTE 5 – PENSION PLANS (Continued)

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

Actuarial Assumptions – The total pension liability was determined by rolling forward the total pension liability determined in the June 30, 2016, actuarial accounting valuation to June 30, 2017. The June 30, 2017, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	Varies by Entry Age and Services
Mortality	Derived using CalPERS' membership data for all funds ⁽¹⁾
Investment Rate of Return	7.15%
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society Actuaries Scale BB. The April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report is based on CalPERS demographic data from 1997 to 2011

The underlying actuarial assumptions used in the June 30, 2016 valuation were based on the results of the 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 7.15 percent and reflects the long-term expected rate of return for the Plans net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans, the amortization and smoothing periods adopted by the CalPERS Board in 2013 were used. For the Plans, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for Public Employees Retirement Fund (PERF) C. The crossover test results can be found on the CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

NOTE 5 – PENSION PLANS (Continued)**C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions** (Continued)

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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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 ^(a)	Real Return Years 11+ ^(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

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 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Miscellaneous	\$ 20,111,029	\$ 14,047,419	\$ 9,025,429

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, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description

The District administers a single-employer defined-benefit post-employment healthcare plan. Benefits vary by hire date and employment status. Benefits continue to the surviving spouses. 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

Eligibility for retiree health benefits requires service or disability retirement from the District on or after age 50 (age 52 for those hired after 9/1/2004) with at least five years of CalPERS service.

The District pays 100% of medical premiums for employees and their dependents hired prior to September 1, 2004.

The District pays a vested percentage of medical premiums for employees and their dependents for those hired on or after September 1, 2004, and prior to July 1, 2014.

The District pays a vested percentage of the single party medical premium for those hired on or after July 1, 2014.

For all employees, regardless of hire date, the District pays 100% of vision premium for retirees and dependents. The District also provides a group life policy of \$7,500 for retirees.

Employees Covered by Benefit Terms

At June 30, 2017 (the census date), the benefit terms covered the following employees:

	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefit payments	55
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>51</u>
Total	<u><u>106</u></u>

Contributions

The District establishes rates based on an actuarially determined rate.

For the year ended June 30, 2018 the District's expected contribution rate is 18.09% of covered-employee payroll. Employees pay the difference between the benefit they receive and the monthly premium.

B. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**B. Net OPEB Liability** (Continued)***Actuarial Assumptions***

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions:

Inflation	2.50%
Salary Increases	Aggregate salary increases 3.00%. Individual salary increases based on CalPERS.
Investment Rate of Return	7.00%
Healthcare Cost Trend Rates	7.00% in the first year, trending down to 3.94% over 58 years.
Mortality Rate (1)	Based on CalPERS tables.

(1) - Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.00%	5.82%
Fixed Income	27.00%	2.37%
Treasury Inflation Protection Securities	5.00%	1.44%
Real Estate Investment Trusts	8.00%	4.25%
Commodities	3.00%	2.34%
Total	100.00%	4.44%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set equal to the long-term expected rate of return.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**B. Net OPEB Liability** (Continued)***Changes in the Net OPEB Liability***

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2017	\$ 10,072,678	\$ 3,473,063	\$ 6,599,615
Changes in the Year:			
Service Cost	383,592	-	383,592
Interest	689,122	-	689,122
Differences between Actual and Expected Experience	-	-	-
Contribution - Employer - Explicit Subsidy	-	761,546	(761,546)
Contribution - Employer - Implicit Subsidy	-	104,209	(104,209)
Contribution - Employee	-	-	-
Net Investment Income	-	257,451	(257,451)
Benefit Payments, Including Refunds of Employee Contributions	(351,936)	(351,936)	-
Implicit Rate Subsidy Fulfilled	(104,209)	(104,209)	-
Administrative Expenses	-	(1,548)	1,548
Net Changes	616,569	665,513	(48,944)
Balance at June 30, 2018	\$ 10,689,247	\$ 4,138,576	\$ 6,550,671

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%), follows:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Net OPEB Liability	\$ 7,951,929	\$ 6,550,671	\$ 5,402,363

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates, follows:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
	Decreasing to 2.94%	Decreasing to 3.94%	Decreasing to 4.94%
Net OPEB Liability	\$ 5,153,031	\$ 6,550,671	\$ 8,286,106

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**B. Net OPEB Liability** (Continued)***OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB***

For the year ended June 30, 2018, the District recognized an OPEB expense of \$816,811. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Actual and Expected Experience	\$ -	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	
2019	\$ -
2020	-
2021	-
2022	-
2023	-
	<u>\$ -</u>

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, 2018, the District paid the County the following amounts for these services:

Information Technology Services	\$ 290,987
Accounting Services	31,334

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 acquisition 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.

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 years.

The following is a summary of the insurance policies carried by the District for the year ended June 30, 2018:

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 Pittsburg, PA - Excess workers' compensation	Statutory
National Union Fire Co. of Pittsburg, PA - Employer's liability	750,000

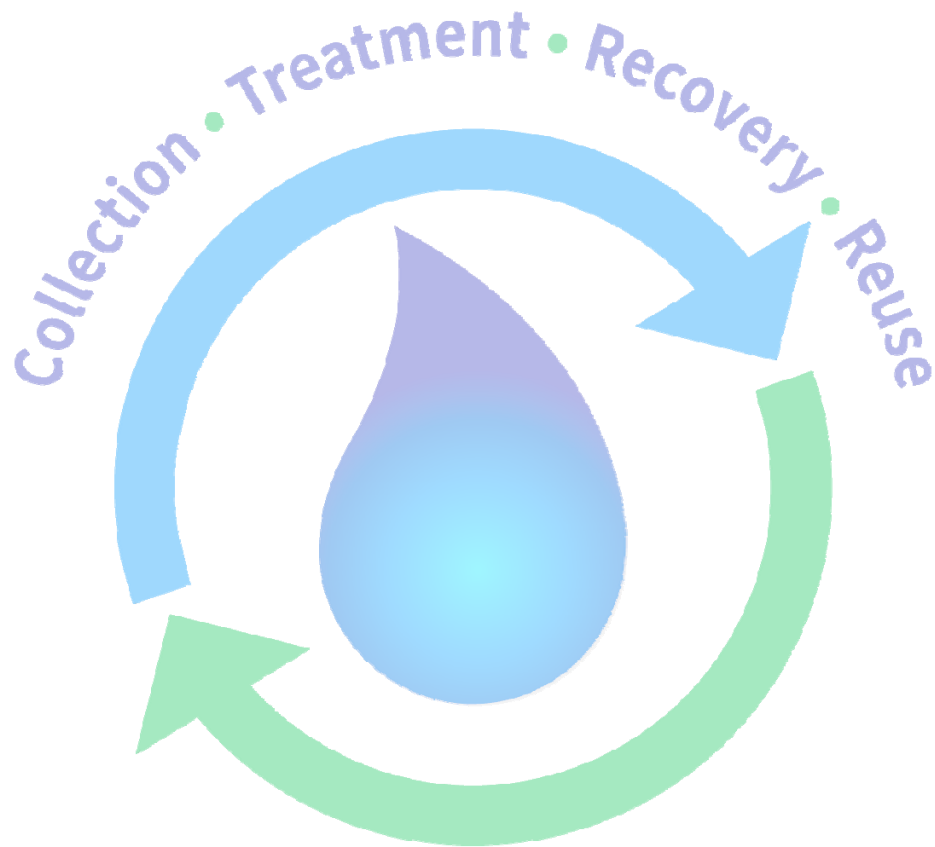
NOTE 10 – RESTATEMENT OF BEGINNING NET POSITION

The District's beginning net position has been restated to reflect the cumulative effect of a prior period adjustment in the amount of \$7,077,081 relating to the implementation of GASB Statement No. 75.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 27, 2018, which is the date the financial statements were issued. There are no reportable events through this date.

REQUIRED SUPPLEMENTARY INFORMATION



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**NAPA SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
AND RELATED RATIOS
LAST TEN FISCAL YEARS***

	<i>Measurement Period</i>	<u>2018</u>
Total OPEB Liability		
Service Cost		\$ 383,592
Interest on the Total OPEB Liability		689,122
Changes of Benefit Terms		-
Differences Between Expected and Actual Experience		-
Changes in Assumptions		-
Benefit Payments		(351,936)
Implicit Rate Subsidy Fulfilled		<u>(104,209)</u>
Net Change in Total OPEB Liability		616,569
Total OPEB Liability - Beginning		<u>10,072,678</u>
Total OPEB Liability - Ending (a)		<u><u>\$ 10,689,247</u></u>
 Plan Fiduciary Net Position		
Net Investment Income		\$ 257,451
Contributions - Employer - Explicit Subsidy		761,546
Contributions - Employer - Implicit Subsidy		104,209
Contributions - Employee		-
Benefit Payments		(351,936)
Implicit Rate Subsidy Fulfilled		(104,209)
Administrative Expenses		<u>(1,548)</u>
Net Change in Plan Fiduciary Net Position		665,513
Plan Fiduciary Net Position - Beginning		<u>3,473,063</u>
Plan Fiduciary Net Position - Ending (b)		<u><u>\$ 4,138,576</u></u>
 Net OPEB Liability - Ending [(a) - (b)]		<u><u>\$ 6,550,671</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		38.72%
 Covered-Employee Payroll		\$ 4,784,957
 Net OPEB Liability as a Percentage of Covered- Employee Payroll		136.90%

* Fiscal year 2018 was the 1st 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, 2018**

**SCHEDULE OF CONTRIBUTIONS – OPEB
LAST TEN FISCAL YEARS***

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution	\$ 865,755
Less: Estimated Contributions to be Made	<u>865,755</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered-Employee Payroll	\$ 4,784,957
Contributions as a Percentage of Covered-Employee Payroll	18.09%

* Fiscal year 2018 was the 1st year of implementation. Additional years will be presented as they become available.

Assumptions and Methods

Actuarial cost method	Entry age normal, level percent of pay
Amortization method	Closed period, level percent of pay
Amortization period	20 years
Asset valuation method	Market value projected to fiscal year-end 2018
Inflation	2.50%
Assumed rate of payroll growth	3.00%
Healthcare trend rates	7.00%, trending down to 3.94%
PEMHCA trend rate	3.00%
Rate of return on assets	7.00%
Mortality rate	CalPERS Rates
Retirement rates	CalPERS Rates
Other information	The ADC takes into account the implicit subsidy

**NAPA SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS***

	Miscellaneous June 30, 2017	Miscellaneous June 30, 2016	Miscellaneous June 30, 2015	Miscellaneous June 30, 2014
Proportion of the Net Pension Liability	0.35635%	0.36750%	0.399200%	0.3759100%
Proportionate Share of the Net Pension Liability	\$ 14,047,419	\$ 12,766,481	\$ 10,951,783	\$ 9,290,707
Covered-Employee Payroll	\$ 4,848,872	\$ 4,897,437	\$ 4,527,631	\$ 4,277,047
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	289.70%	260.68%	241.89%	217.22%
Plan's Fiduciary Net Position	\$ 30,036,526	\$ 27,798,062	\$ 27,843,404	\$ 29,702,267
Plan's Total Pension Liability	\$ 44,083,945	\$ 40,564,543	\$ 38,795,187	\$ 38,992,974
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.13%	68.53%	71.77%	76.17%

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

Changes in Assumptions:

In fiscal year 2016-17, the financial reporting discount rate was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

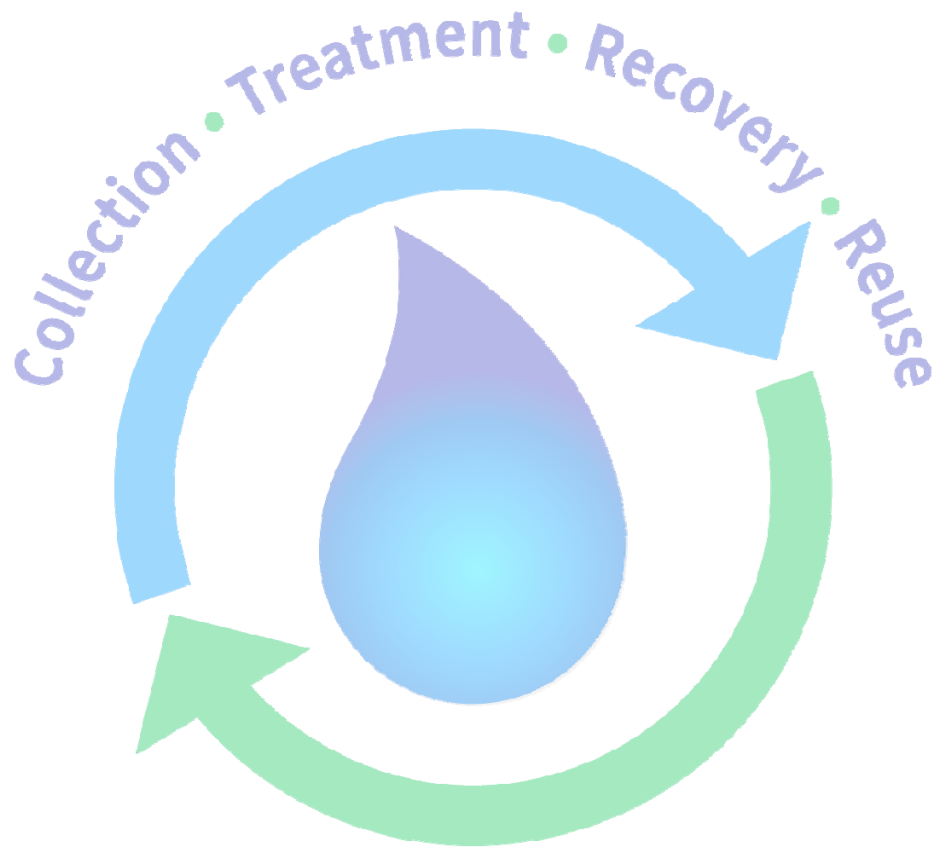
**NAPA SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF CONTRIBUTIONS – PENSION
LAST TEN FISCAL YEARS***

	Miscellaneous June 30, 2017	Miscellaneous June 30, 2016	Miscellaneous June 30, 2015	Miscellaneous June 30, 2014
Actuarially Determined Contribution	\$ 1,662,038	\$ 1,581,587	\$ 1,513,722	\$ 1,326,544
Contributions in Relation to the Actuarially Determined Contribution	<u>1,662,038</u>	<u>1,581,587</u>	<u>1,513,722</u>	<u>1,326,544</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 4,848,872	\$ 4,897,437	\$ 4,527,631	\$ 4,277,047
Contributions as a Percentage of Covered- Employee Payroll	34.28%	32.29%	33.43%	31.02%

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

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 per Equivalent Dwelling Unit (EDU)
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 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)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Assets										
Current and other assets	\$ 28,764	\$ 26,803	\$ 25,221	\$ 26,971	\$ 43,534	\$ 51,357	\$ 22,414	\$ 23,239	\$ 23,163	\$ 20,801
Capital assets	<u>225,064</u>	<u>219,202</u>	<u>217,580</u>	<u>199,245</u>	<u>168,218</u>	<u>155,508</u>	<u>149,916</u>	<u>148,192</u>	<u>147,829</u>	<u>150,123</u>
Total assets	253,828	246,005	242,801	226,216	211,752	206,865	172,330	171,431	170,992	170,924
Deferred Outflows of Resources										
Deferred employer pension contributions	7,693	4,592	3,538	1,242	-	-	-	-	-	-
Deferred capacity charges	22	43	-	-	-	-	-	-	-	-
Deferred loss on refunding of debt	<u>414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	8,129	4,635	3,538	1,242	-	-	-	-	-	-
Liabilities										
Current and other liabilities	6,748	8,368	11,607	11,744	7,863	6,031	4,601	4,250	3,441	3,146
Long-term liabilities	<u>68,496</u>	<u>65,328</u>	<u>66,582</u>	<u>67,972</u>	<u>61,603</u>	<u>64,404</u>	<u>33,751</u>	<u>35,831</u>	<u>37,744</u>	<u>37,097</u>
Total liabilities	75,244	73,696	78,189	79,716	69,466	70,435	38,352	40,081	41,185	40,243
Deferred Inflows of Resources										
Pension	461	699	1,159	2,091	-	-	-	-	-	-
Net Position										
Net investment in capital assets	174,602	165,848	161,208	139,960	115,847	115,038	117,505	114,274	112,467	115,483
Restricted for debt service and construction projects	-	-	-	-	-	-	-	3,388	3,014	4,114
Unrestricted	<u>11,650</u>	<u>10,397</u>	<u>5,783</u>	<u>5,691</u>	<u>26,438</u>	<u>21,393</u>	<u>16,474</u>	<u>13,689</u>	<u>14,326</u>	<u>11,084</u>
Total net position	<u>\$ 186,252</u>	<u>\$ 176,245</u>	<u>\$ 166,991</u>	<u>\$ 145,651</u>	<u>\$ 142,285</u>	<u>\$ 136,431</u>	<u>\$ 133,979</u>	<u>\$ 131,351</u>	<u>\$ 129,807</u>	<u>\$ 130,681</u>

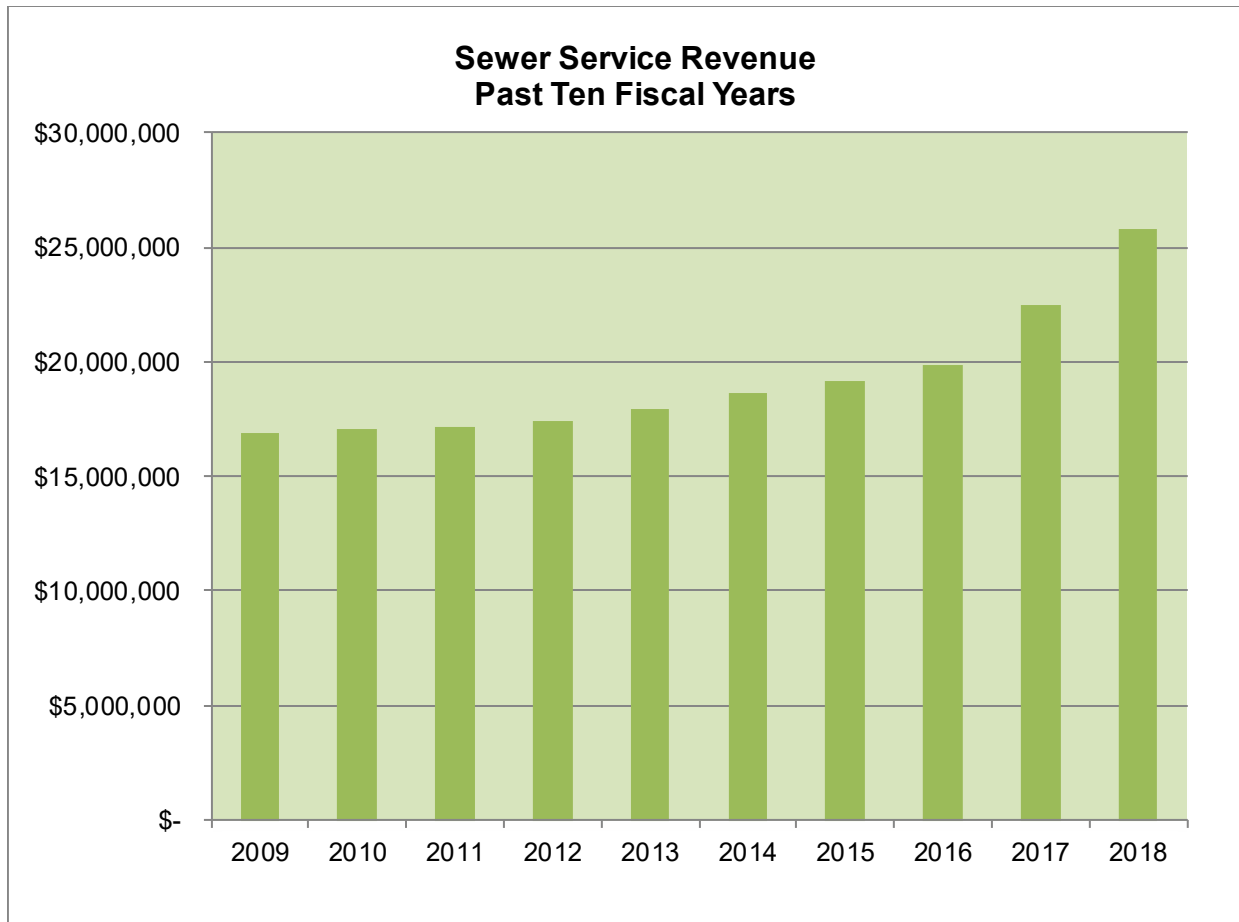
Source: Napa Sanitation District Basic Financial Statements

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating Revenues										
Sewer charges	\$ 25,806	\$ 22,502	\$ 19,887	\$ 19,191	\$ 18,665	\$ 17,965	\$ 17,400	\$ 17,173	\$ 17,089	\$ 16,881
Capacity charges	6,533	5,356	3,140	1,568	1,774	1,517	1,426	1,339	592	821
Other charges for services	1,218	1,102	828	739	688	684	689	531	530	220
Total operating revenues	33,557	28,960	23,855	21,498	21,127	20,166	19,515	19,043	18,211	17,922
Operating Expenses										
Insurance	207	191	189	188	192	185	211	199	196	229
Salaries and benefits	6,214	8,180	5,872	6,956	6,967	7,034	6,503	6,422	6,333	6,124
Materials, supplies, and repairs	2,033	2,186	2,156	2,090	2,118	1,978	2,037	1,321	1,288	1,413
General and administrative	560	625	562	518	513	632	424	408	416	322
Contractual services	1,274	1,149	1,198	1,095	1,131	1,229	1,329	1,751	1,823	1,817
Utilities	885	1,112	948	786	1,002	769	904	834	925	1,047
Depreciation	9,073	8,846	7,751	7,543	7,302	7,082	7,045	6,653	6,519	6,186
Amortization	-	-	-	-	-	43	33	33	394	15
Total operating expenses	20,246	22,289	18,676	19,176	19,225	18,952	18,486	17,621	17,894	17,153
Operating income	13,311	6,671	5,179	2,322	1,902	1,214	1,029	1,422	317	769
Nonoperating Revenue (Expense)										
Lease income	726	718	715	713	729	1,488	130	168	301	528
Taxes	(29)	(26)	(25)	(25)	(24)	(24)	(24)	(23)	(24)	(31)
Gain (loss) on disposal of assets	8	20	14	21	2,848	-	14	96	(61)	(80)
Interest income	247	107	64	147	246	200	113	144	183	459
Interest expense	(1,455)	(1,715)	(1,816)	(1,936)	(2,116)	(2,265)	(1,080)	(1,127)	(1,820)	(1,812)
Other nonoperating revenue	415	40	105	79	170	319	-	160	133	991
Total nonoperating revenue (expense)	(88)	(856)	(943)	(1,001)	1,853	(282)	(847)	(582)	(1,288)	55
Income (loss) before capital contributions	13,223	5,815	4,236	1,321	3,755	932	182	840	(971)	824
Capital Contributions	3,861	3,440	17,104	12,576	2,852	1,892	2,447	703	98	463
Change in Net Position	17,084	9,255	21,340	13,897	6,607	2,824	2,629	1,543	(873)	1,287
Net Position, Beginning of Year - Restated	169,168	166,990	145,651	131,754	135,678	133,607	131,350	129,807	130,681	129,394
Net Position, End of Year	\$ 186,252	\$ 176,245	\$ 166,991	\$ 145,651	\$ 142,285	\$ 136,431	\$ 133,979	\$ 131,350	\$ 129,808	\$ 130,681

Source: Napa Sanitation District Basic Financial Statements

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

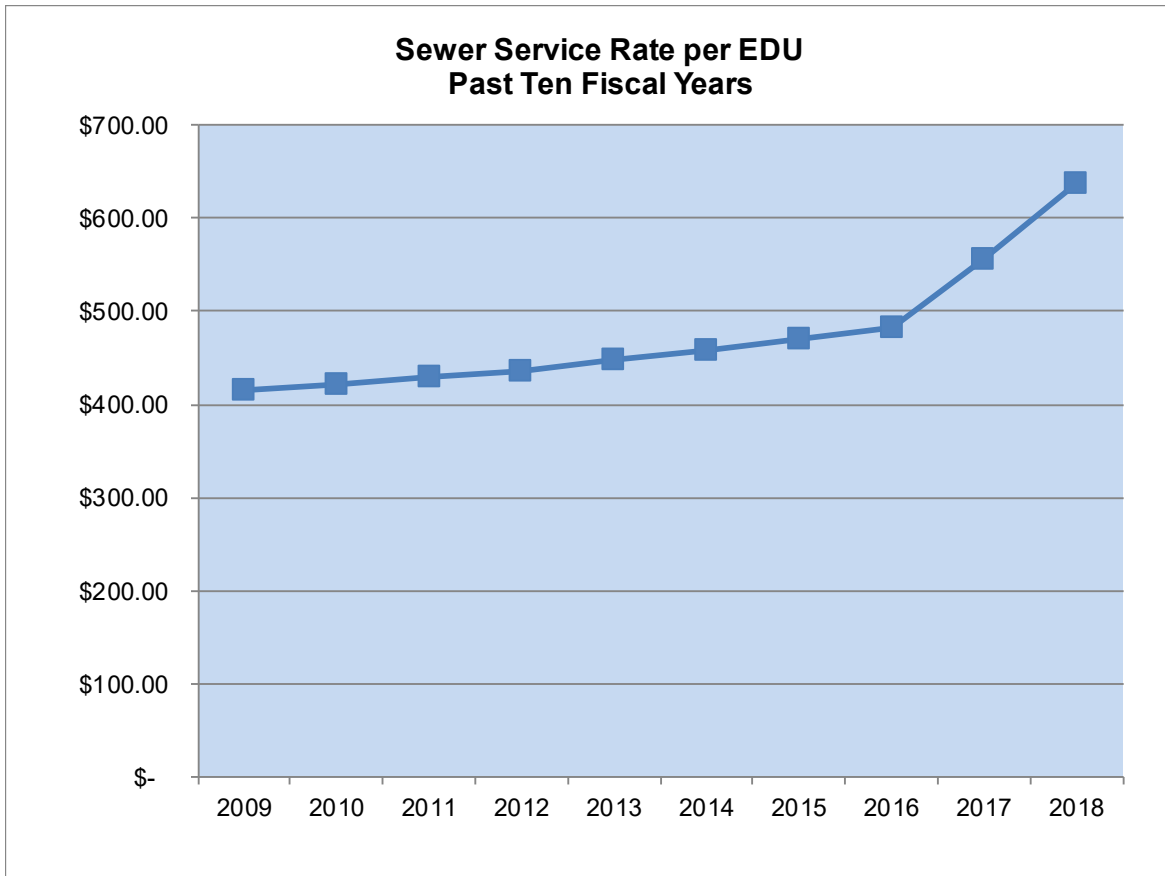


Historic Sewer Service Revenues

Fiscal Year Ended June 30	Sewer Service Revenues	Percentage Change
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%
2018	25,806,368	14.7%

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

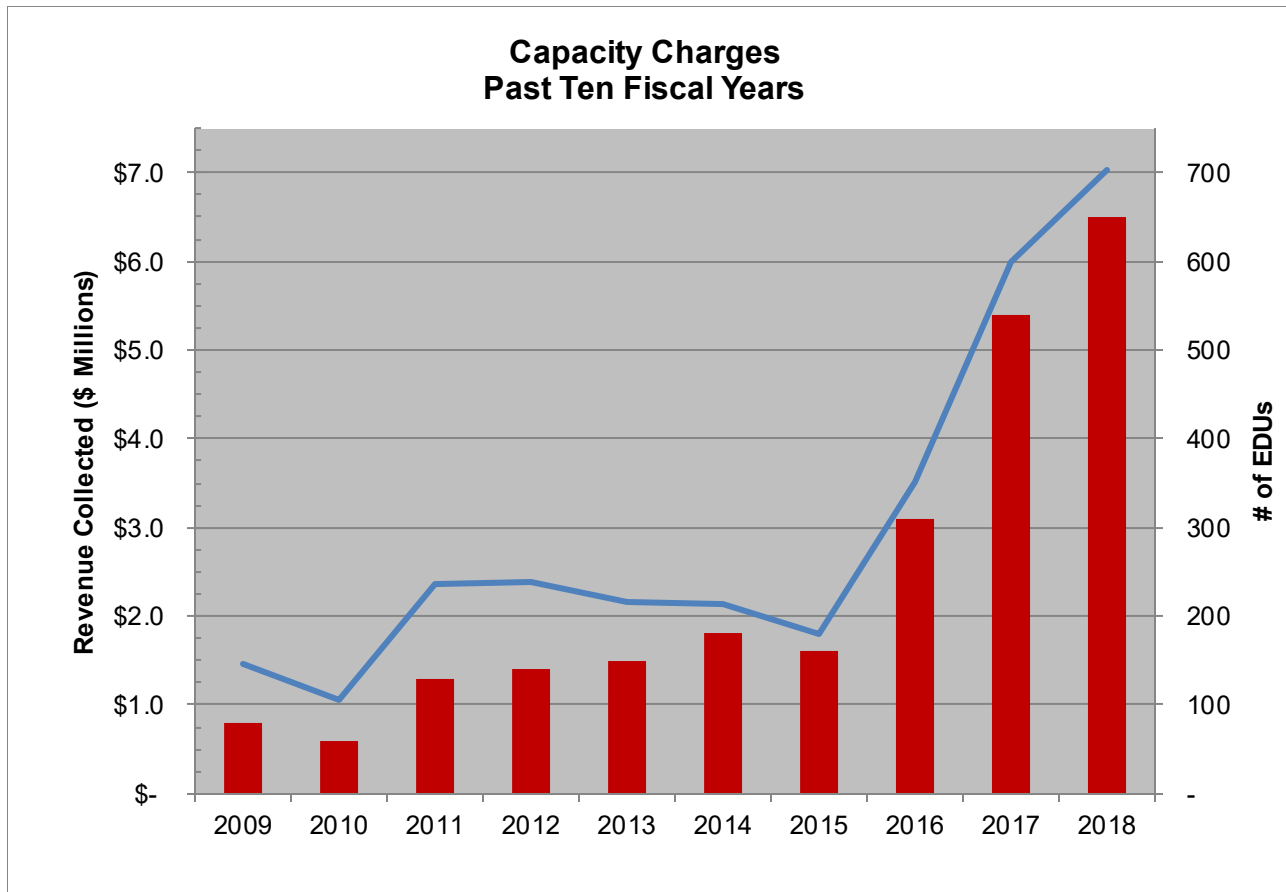
Fiscal Year Ended June 30	Sewer Service Rates	Percentage Change
2009	\$ 416.00	15.0%
2010	421.00	1.2%
2011	429.00	1.9%
2012	435.44	1.5%
2013	448.06	2.9%
2014	457.92	2.2%
2015	469.82	2.6%
2016	482.50	2.7%
2017	554.88	15.0%
2018	638.10	15.0%

Notes:

- In 2006, the District Board of Directors approved a three year phased-in increase to the sewer service rates. For fiscal year (FY) 2007, 2008, and 2009, the District increased rates 15% per year. The rate thereafter increases with inflation.
- In 2016, the Board of Directors set the maximum rate increases for the following five years. The rate increased by 15% in both FY 2017 and FY 2018. The rate increase for FY 2019 is set for 6%. The maximum rate increases for FY 2020 and 2021 are 5% and 4%, respectively. The Board will determine the rate increase based on an evaluation of the revenue requirements (up to the maximum approved rate increase) during the preparation of the budget for those fiscal years.

Source: Napa Sanitation District

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



Historic Capacity Charges

Fiscal Year Ended June 30	Capacity Charges (per EDU)	Total Collected	Number of EDUs
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
2018	9,299	6,532,806	702.5

Source: Napa Sanitation District

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

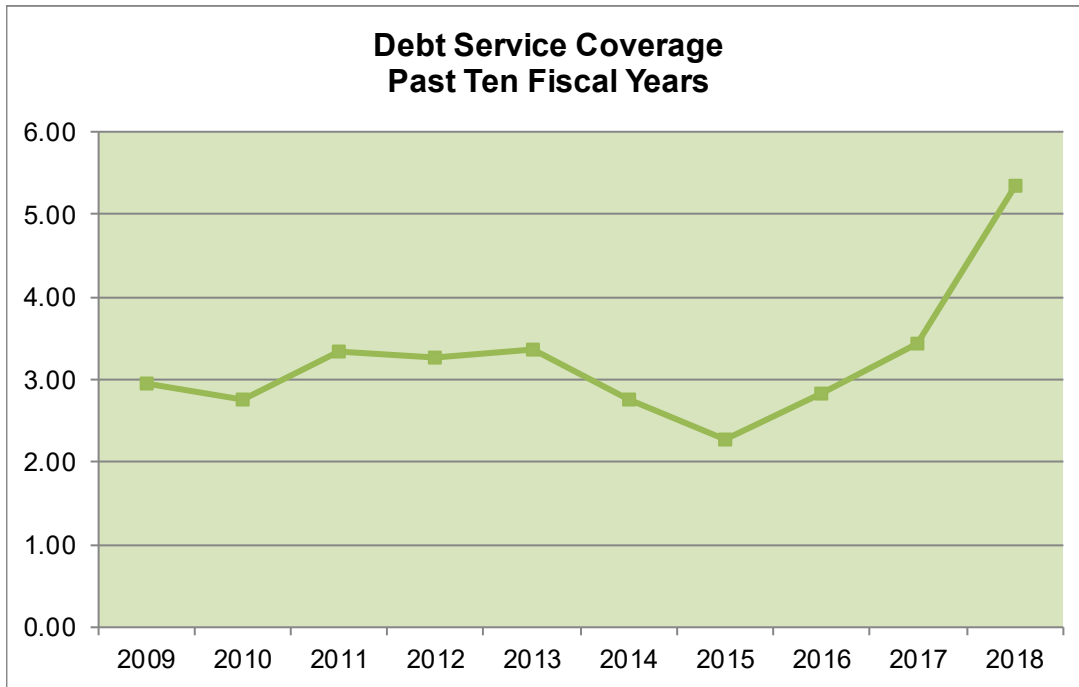
FY 2017-18			FY 2007-08		
Payor	Total Paid	Percentage of Revenue Collected	Payor	Total Paid	Percentage of Revenue Collected
Napa State Hospital	\$ 821,405	3.2%	Napa State Hospital	\$ 427,362	3.0%
NVUSD	342,404	1.3%	NVUSD	212,313	1.5%
Meadows of Napa Valley	187,538	0.7%	Queen of the Valley	146,429	1.0%
Meritage Resorts	177,264	0.7%	Napa County	143,171	1.0%
Marriott Hotel	171,138	0.7%	Marriott Hotel	116,528	0.8%
Napa County	159,334	0.6%	Embassy Suites	97,016	0.7%
			Silverado Country Club Laundromat /		
Embassy Suites	158,504	0.6%	Frank's Janitorial Service	77,287	0.6%
Fairgrounds	157,164	0.6%	Silverado Country Club	61,540	0.4%
Queen of the Valley	97,757	0.4%	Napa Premium Outlets	46,734	0.3%
Avia Hotel	93,673	0.4%	Dey Laboratories	44,562	0.3%
Total	<u>\$ 2,366,181</u>	<u>9.2%</u>		<u>\$1,372,942</u>	<u>9.6%</u>

Notes:

- (1) Total Revenue Collected 2017-2018: \$25,806,368
- (2) Total Revenue Collected 2007-2008: \$14,051,455

Source: Napa Sanitation District

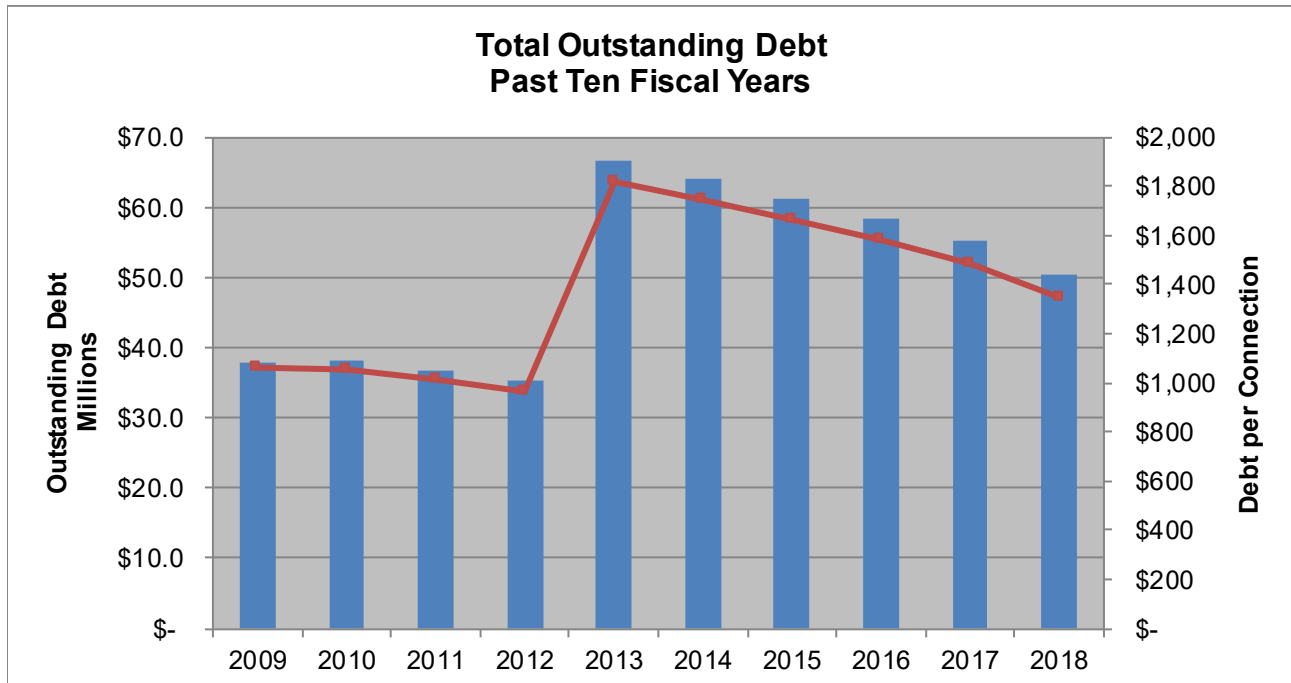
**NAPA SANITATION DISTRICT
DEBT SERVICE COVERAGE
PAST TEN FISCAL YEARS**



Fiscal Year Ended June 30	Gross Revenues	Operating Expenses	Net Revenues	Debt Service	Debt Service Coverage Ratio
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
2018	34,953,087	11,173,912	23,779,175	4,453,404	5.34

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	State Revolving Fund Loans			
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
2018	49,286,482	1,202,919	50,489,401	37,535	1,345

Source: Napa Sanitation District

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

Fiscal Year	Population¹	Personal Income²	Per Capital Personal Income³	School Enrollment⁴	Unemployment Rate⁵
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%
2018	142,808	9,496,589,192	66,499	20,402	3.1%

Notes:

¹⁻³ California State Department of Transportation –

http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic_files/2015/Final%20Forecasts/Napa.pdf

⁴ EdData Partnership – <http://www.ed-data.org/county/Napa>

⁵ Employment Development Department, Labor Market Information – www.labormarketinfo.edd.ca.gov 9/15/18

Source: County of Napa Comprehensive Annual Financial Report for FY 2017/18

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

FY 2017-18			FY 2008-09		
Employer	Employees	Percentage of Total County Employees ¹	Employer	Employees	Percentage of Total County Employees
Napa State Hospital	2,418	3.26%	Napa State Hospital	2,526	1.93%
Napa Valley Unified School District	1,504	2.03%	Queen of the Valley Hospital	1,562	1.20%
County of Napa	1,498	2.02%	Napa Valley Unified School District	1,500	1.15%
St. Helena Hospital*	1,300	1.75%	County of Napa	1,316	1.01%
Queen of the Valley Hospital	1,200	1.62%	St. Helena Hospital	989	0.76%
Trinchero Family Estates	1,100	1.48%	Veterans' Home of California	907	0.69%
Veterans' Home of California*	781	1.05%	Napa Valley College	721	0.55%
Wal-Mart - Napa and American Canyon	588	0.79%	Trinchero Family Estates	670	0.51%
Treasury Wine Estates	450	0.61%	Pacific Union College	568	0.43%
City of Napa	441	0.59%	Silverado Resort	544	0.42%
Total	11,280	15.20%		11,303	8.65%

Notes:

¹ Total Napa County Employment 2017-2018: 74,200

Sources:

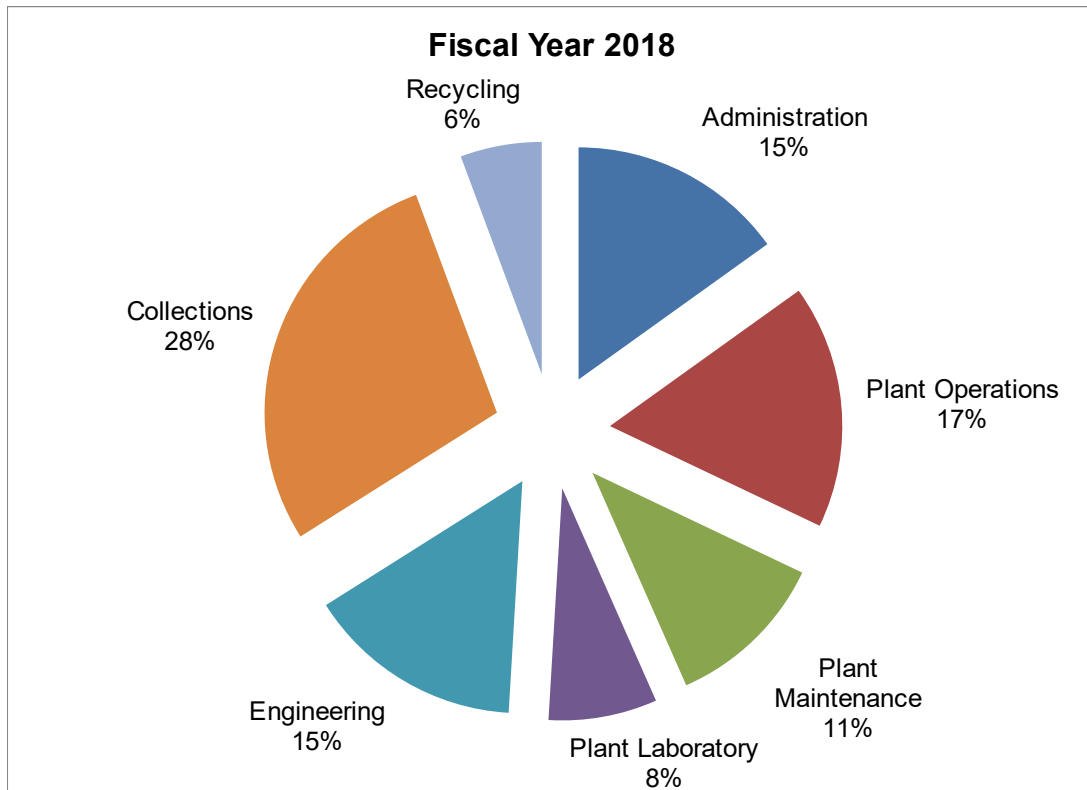
State of California Employment Development Department: <http://www.labormarketinfo.edd.ca.gov/>

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**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administration	9	10	8	9	9	9	8	9	8	8
Plant Operations	9	9	9	8	9	9	9	9	8	9
Plant Maintenance	4	5	5	5	5	5	5	6	6	6
Plant Laboratory	4	4	4	4	4	4	4	4	3	4
Engineering	5	6	6	6	6	6	5	6	8	8
Collections	12	13	13	13	13	13	13	13	13	15
Recycling	4	4	4	4	4	3	3	3	3	3
Total Employees	47	51	49	49	50	49	47	50	49	53
Approved FTEs	51	51	51	51	51	51	51	51	53	53



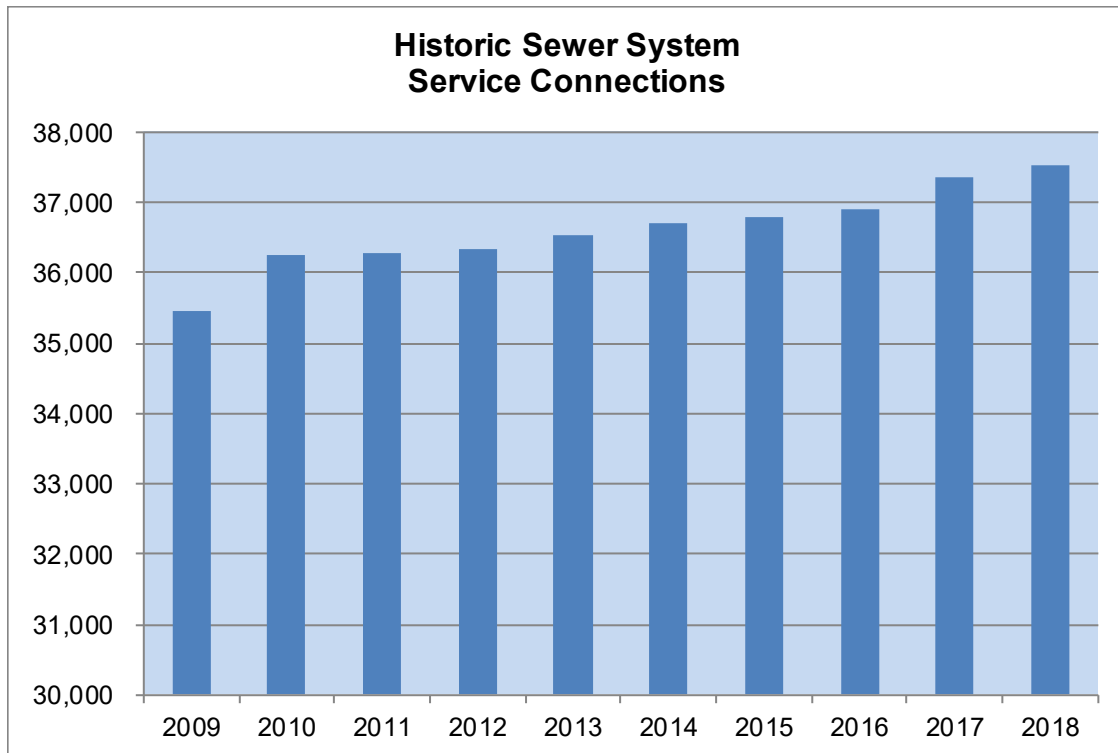
Note:

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

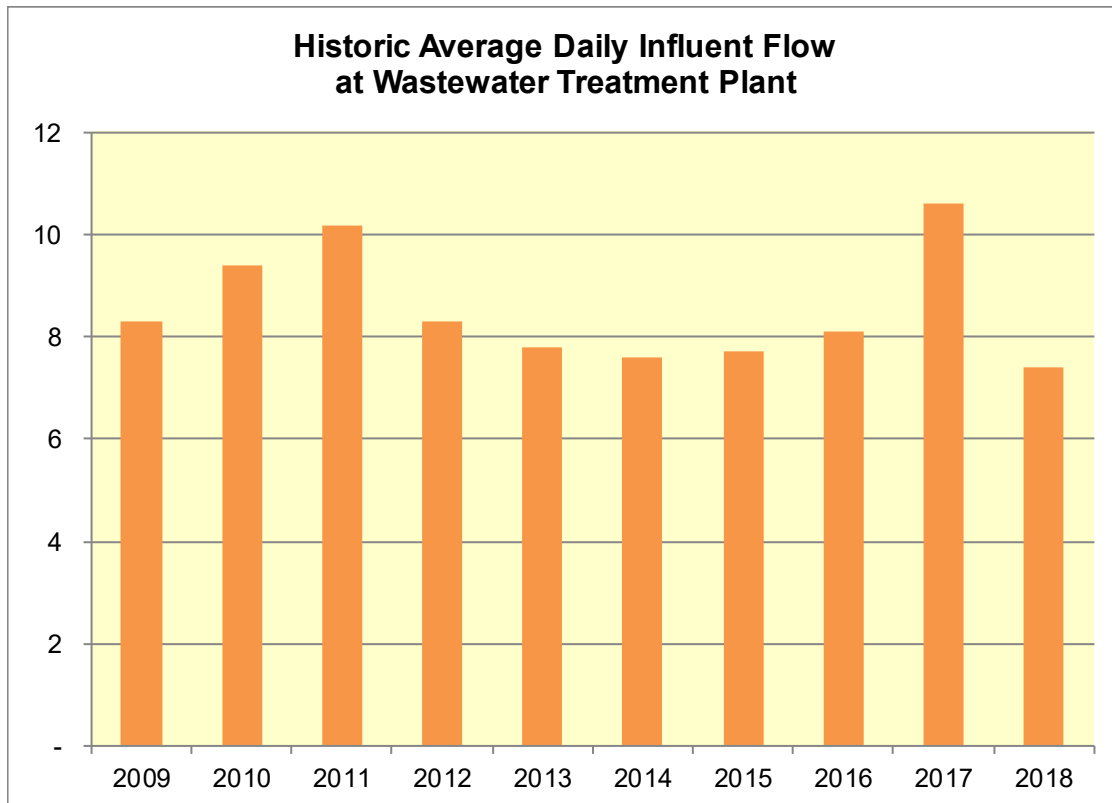
**NAPA SANITATION DISTRICT
HISTORIC SEWER SYSTEM SERVICE CONNECTIONS
AND EQUIVALENT DWELLING UNITS (EDUs)
PAST TEN FISCAL YEARS**



Fiscal Year Ended June 30	Single Family	Multifamily	Commercial/ Industrial	Total Connections	Total EDUs
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
2018	23,849	8,393	5,293	37,535	40,655

Source: Napa Sanitation District

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



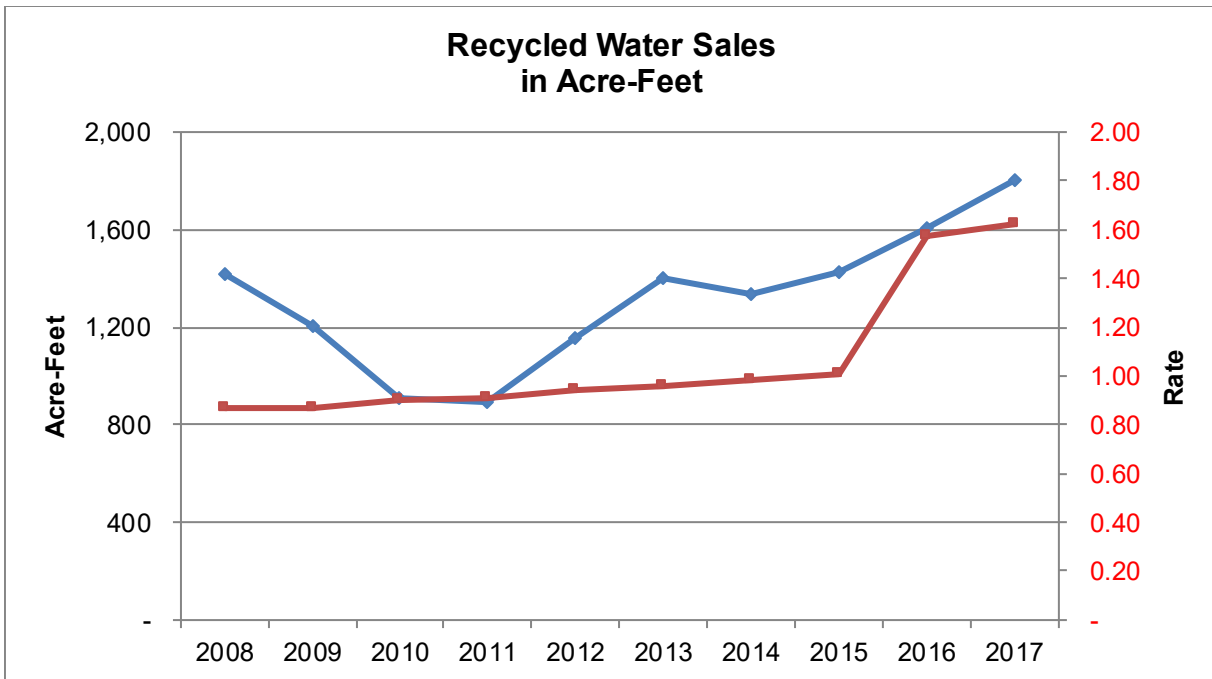
Fiscal Year Ended June 30	Daily Average Flow (MGD)	Increase/ Decrease
2009	8.3	-1.2%
2010	9.4	13.3%
2011	10.2	8.5%
2012	8.3	-18.6%
2013	7.8	-6.0%
2014	7.6	-2.6%
2015	7.7	1.3%
2016	8.1	4.9%
2017	10.6	23.6%
2018	7.4	-9.5%

Notes:

MGD = Million Gallons per Day

Source: Napa Sanitation District

**NAPA SANITATION DISTRICT
HISTORIC ANNUAL RECYCLED WATER SALES
PAST TEN CALENDAR 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
2017	1,799	586	1.62

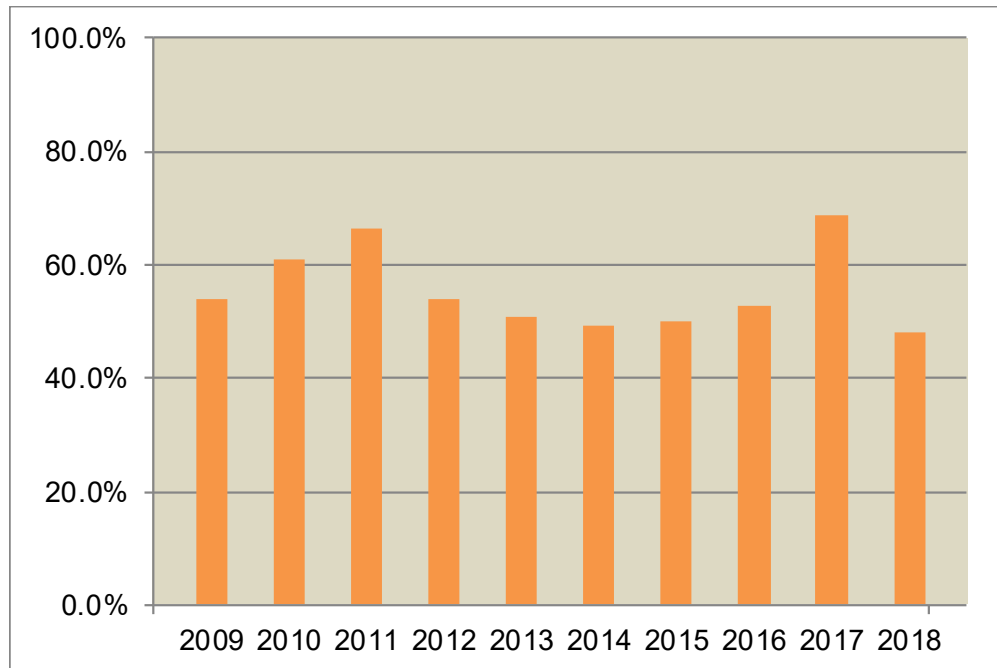
Notes:

1 Acre-Foot = .325851 Million Gallons

Source: Napa Sanitation District

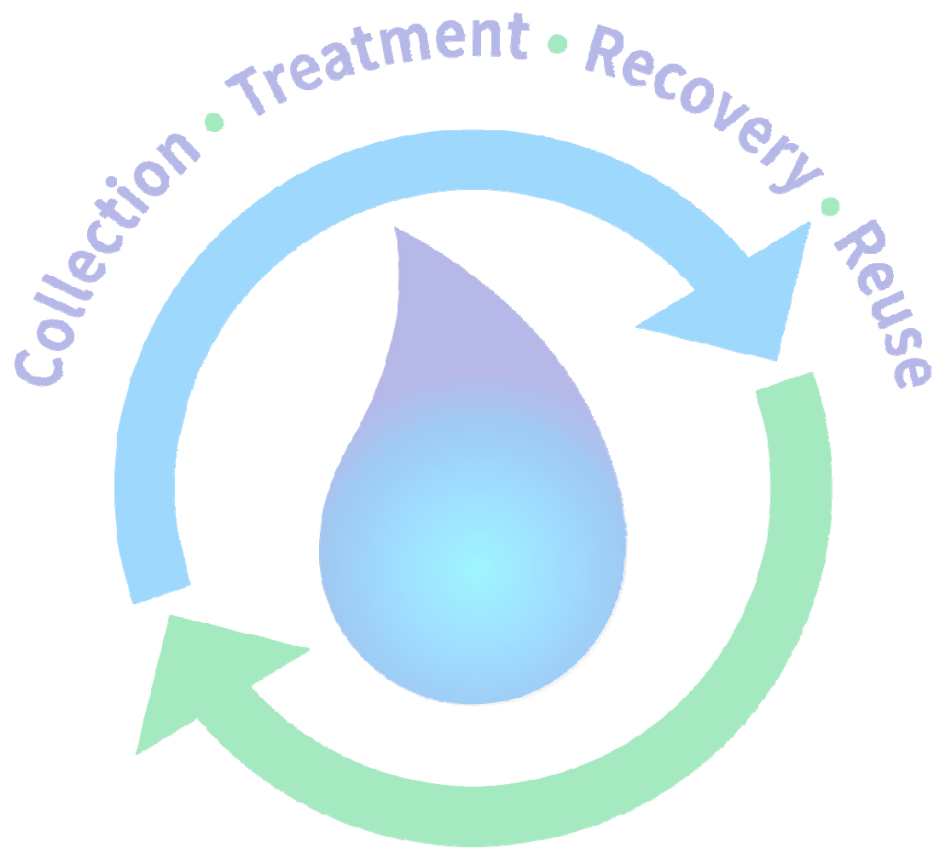
**NAPA SANITATION DISTRICT
OPERATING AND CAPITAL INDICATORS
PAST TEN FISCAL YEARS**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Miles of Sewer Lines	268.60	268.95	269.05	270.00	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)	8.3	9.4	10.2	8.3	7.8	7.6	7.7	8.1	10.6	7.4
Capacity Utilized	53.9%	61.0%	66.2%	53.9%	50.6%	49.4%	50.0%	52.6%	68.8%	48.1%



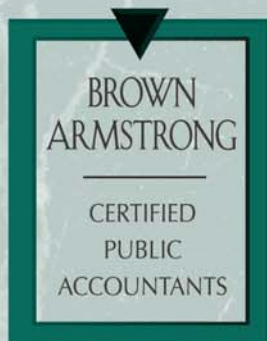
Source: Napa Sanitation District

SINGLE AUDIT REPORT



NapaSan

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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

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WWW.BACPAS.COM

Board of Directors
Napa Sanitation District
Napa, California

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, 2018, 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, 2018.

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*.

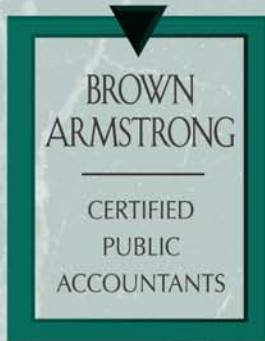
Purpose of this Report

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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
November 27, 2018



BROWN ARMSTRONG

Certified Public Accountants

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

Board of Directors
Napa Sanitation District
Napa, California

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Report on Compliance for Each Major Federal Program

We have audited the Napa Sanitation District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018, and the related notes to the financial statements. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

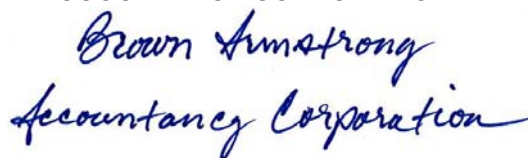
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

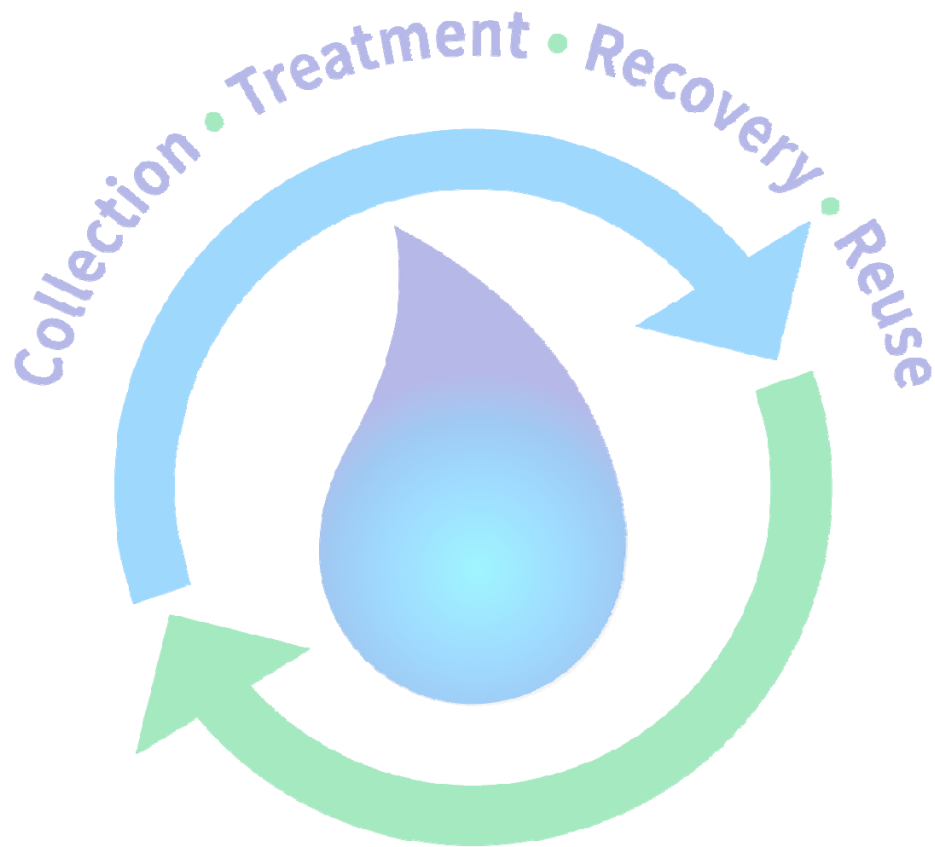
Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 27, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures we applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
November 27, 2018



NapaSan

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**NAPA SANITATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed through to Subrecipients</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Environmental Protection Agency</u>				
Passed through State Water Resource Board:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	D17-01025	\$ -	\$ 876,045
Total U.S. Environmental Protection Agency			-	876,045
Total Expenditures of Federal Awards			\$ -	\$ 876,045

**NAPA SANITATION DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 – REPORTING ENTITY

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

NOTE 2 – BASIS OF ACCOUNTING

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

NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS

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

NOTE 4 – PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

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

NOTE 5 – INDIRECT COST RATE

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

**NAPA SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section 1

Summary of Auditor's Results:

Financial Statements

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

Federal Awards

- | | |
|---|---------------|
| 1. Internal controls over major program: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None reported |
| 2. Type of auditor's report issued on compliance for major program: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? | No |
| 4. Identification of major programs: | |

CFDA Number

66.458

Name of Federal Program

Capitalization Grants for Clean Water
States Revolving Funds

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

Section 2

Financial Statement Findings

None reported.

Section 3Federal Awards Findings and Questioned Costs

None reported.

Section 4Summary Schedule of Prior Year Findings and Questioned Costs

None reported.