

**NAPA COUNTY FLOOD
PROTECTION AND WATERSHED
IMPROVEMENT AUTHORITY
(A Component Unit of the
County of Napa, California)**

**COMPONENT UNIT
FINANCIAL REPORT**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2015**

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**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Napa County Flood Protection and Watershed Improvement Authority
Napa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Napa County Flood Protection and Watershed Improvement Authority (Authority), a component unit of the County of Napa, as of and for the year ended June 30, 2015, and the related notes to the 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2015, and the changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of the Napa County Flood Protection and Watershed Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Napa County Flood Protection and Watershed Improvement Authority's internal control over financial reporting and compliance.



Roseville, California
October 27, 2015

NAPA COUNTY FLOOD PROTECTION AND WATERSHED IMPROVEMENT AUTHORITY

Management's Discussion and Analysis
For the Year Ended June 30, 2015

This section of the Napa County Flood Protection and Watershed Improvement Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year that ended on June 30, 2015. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority collected \$17,348,129 in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A, during the fiscal year.
- The Authority provided \$3,468,523 to its members for their respective flood control projects, made bond payments (including interest and administrative charges) in the amount of \$5,381,541, and kept administrative costs to \$43,139 or 0.24% of total revenues for the year.
- The cash position of the Authority remained strong with \$68,450,488 invested in the County's investment pool.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority's financial position and activity.

- The first two statements are *government-wide* financial statements that provide both *long-term* and *short-term* information about the Authority's overall financial status.
- The remaining statements are *fund* financial statements that focus on individual parts of the Authority's organization. These statements report the Authority's financial position and activity.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that includes budgetary comparison information for the Authority's only special revenue fund.

Government-Wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Authority's assets and liabilities including long-term debt. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Authority's net position and how they have changed. Net position – the difference between the Authority's assets and liabilities – is one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net position are indicators of whether its financial health is improving or deteriorating, respectively.

Fund Financial Statements

The fund financial statements provide a detailed short-term view and do not include information related to the Authority's long-term liabilities. Additional information is provided on separate schedules that reconcile the differences between the government-wide financial statements and the fund financial statements.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

A summary of the Authority's Statement of Net Position is as follows:

**Condensed Statement of Net Position
As of June 30**

	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Current assets	\$ 72,224,329	\$ 63,603,587	\$ 8,620,742
Total Assets	<u>72,224,329</u>	<u>63,603,587</u>	<u>8,620,742</u>
Deferred outflows of resources	418,558	558,076	(139,518)
Total Deferred Outflows of Resources	<u>418,558</u>	<u>558,076</u>	<u>(139,518)</u>
Current liabilities	6,789,563	6,799,574	10,011
Long term liabilities	10,611,670	15,562,228	4,950,558
Total Liabilities	<u>17,401,233</u>	<u>22,361,802</u>	<u>4,960,569</u>
Net Position			
Restricted	55,241,654	41,799,861	13,441,793
Total Net Position	<u>\$ 55,241,654</u>	<u>\$ 41,799,861</u>	<u>\$ 13,441,793</u>

The Authority's Net Position increased \$13.4 million from \$41,799,861 at June 30, 2014 to \$55,241,654 at June 30, 2015. The increase is primarily due to a combination of lower than anticipated draws on these funds for project costs and increased revenue due to the economic recovery. Total liabilities decreased \$4.9 million over the prior year primarily due to a net decrease in the outstanding principal on the Authority's long term debt.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

Changes in Net Position

A summary of the Authority's Statement of Activities, recapping the Authority's revenues earned during the fiscal year ended June 30, and the expenses incurred are as follows:

**Condensed Statement of Activities
For the Fiscal Year Ending June 30**

	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Revenues:			
Sales & Use Tax	\$ 17,348,129	\$ 16,582,082	\$ 766,047
Interest income	321,280	239,962	81,318
Total revenues	<u>17,669,409</u>	<u>16,822,044</u>	<u>847,365</u>
Expenses:			
Public protection	3,511,662	7,186,327	3,674,665
Interest on long term debt	715,954	1,095,017	379,063
Total expenses	<u>4,227,616</u>	<u>8,281,344</u>	<u>4,053,728</u>
Change in net position	13,441,793	8,540,700	4,901,093
Net position - Beginning of fiscal year	<u>41,799,861</u>	<u>33,259,161</u>	<u>8,540,700</u>
Net position - End of fiscal year	<u>\$ 55,241,654</u>	<u>\$ 41,799,861</u>	<u>\$ 13,441,793</u>

The sales and use taxes in 2015 were slightly higher due to the slow recovery of the economy from the prior year. The increase in investment earnings is the result of a global increase in investment rates and in the balance of the cash with fiscal agent during the fiscal year ended June 30, 2015. The most significant change in expenses was the overall decrease in payments made to the members for their respective projects.

BUDGETARY HIGHLIGHTS

The Authority adopts an annual operating budget that includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain comments from the public before finalizing the budget. The Authority's budget is adopted by the County's Board of Supervisors, sitting as the governing body for the Authority, on or before August 30th of each year. Subsequent increases or decreases to the original budget must be approved by the Authority's Board. The Authority is a special revenue fund which is the operating fund.

Actual expenditures were approximately \$18.1 million less than the final budget projections, due to lower than anticipated draws from the funds for project costs, specifically the City of Napa project which uses State and Federal funds received before drawing on Measure A funding.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Management's Discussion and Analysis (continued)
For the Year Ended June 30, 2015

DEBT ADMINISTRATION

On July 1, 1999, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Bonds in the amount of \$43,650,000. The proceeds were principally used to finance the initial phase of the Napa Flood Project. The final principal payment was made during the 2008-2009 fiscal year.

On March 1, 2005, the Napa County Flood Protection and Watershed Improvement Authority issued Series A Limited Tax Bonds in the amount of \$13,655,000. The proceeds were principally used to finance the initial phase of the City of St. Helena's flood protection and watershed improvement project. Final principal payment was made in this fiscal year.

On July 12, 2005, the Napa County Flood Protection and Watershed Improvement Authority issued Series 2005 Limited Tax Refunding Bonds in the amount of \$29,710,000. The proceeds were used to (i) partially refund the 1999 Series A Bonds, and (ii) pay certain costs incurred in connection with the execution and delivery of the Certificates, including the premium for Certificate insurance. A principal payment of \$3,400,000 was made during this fiscal year. The principal balance outstanding at June 30, 2015, is \$11,090,000. A principal payment of \$3,530,000 is due in fiscal year 2015-2016. The bonds will be fully paid for by June 2018.

On October 1, 2013 the Napa County Flood Protection and Watershed Improvement Authority issued 2013 Series A Limited Tax Refunding Bonds in the amount of \$5,890,000. The proceeds were used to (i) refund, on a current basis, all of the Authority's outstanding Limited Tax Bonds, 2005 Series A issued on March 1, 2005, and (ii) pay costs of issuing the Bonds. The Series A Limited Tax Bonds were issued to finance certain public flood protection and watershed improvement projects. A principal payment of \$1,240,000 was made during this fiscal year. The principal balance outstanding at June 30, 2015, is \$3,830,000. A principal payment of \$1,260,000 is due in fiscal year 2015-2016. The bonds will be fully paid for by June 2018.

CONTACTING THE AUTHORITY

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or any additional information needed, contact the Auditor-Controller's office at 1195 Third Street, Suite B10, Napa, California 94559.

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Statement of Net Position
June 30, 2015

Assets

Current Assets:

Cash and investments in county treasury	\$ 68,450,488
Cash with fiscal agent	484,070
Due from other governments	3,289,771
Total Assets	<u>72,224,329</u>

Deferred Outflows of Resources

Deferred charge on refunding	418,558
Total Deferred Outflows of Resources	<u>418,558</u>

Liabilities

Current Liabilities:

Accounts payable	1,974,990
Accrued interest	24,573
Bonds payable, current portion	4,790,000
Total Current Liabilities	<u>6,789,563</u>

Long-Term Liabilities:

Bonds payable, net of premiums	10,611,670
Total Liabilities	<u>17,401,233</u>

Net Position

Restricted for flood projects	55,241,654
Total Net Position	<u>\$ 55,241,654</u>

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Statement of Activities
For the Fiscal Year Ended June 30, 2015

Expenses	
Public Protection:	
Project charges	\$ 3,468,523
Administration charges	18,787
Accounting and audit expense	15,845
Legal expense	8,507
Interest and fiscal charges	715,954
Net Program Expenses	<u>4,227,616</u>
General Revenues	
Sales & use tax	17,348,129
Interest income	321,280
Total General Revenues	<u>17,669,409</u>
Change in Net Position	13,441,793
Net Position - Beginning of Year	<u>41,799,861</u>
Net Position - End of Year	<u>\$ 55,241,654</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Balance Sheet
Governmental Funds
June 30, 2015

Assets

Cash and investments in County treasury	\$ 68,450,488
Cash with fiscal agent	484,070
Due from other governments	3,289,771
Total Assets	<u><u>\$ 72,224,329</u></u>

Liabilities

Accounts payable	\$ 1,974,990
Total Liabilities	<u>1,974,990</u>

Fund Balance

Restricted	70,249,339
Total Fund Balance	<u>70,249,339</u>

Total Liabilities and Fund Balance	<u><u>\$ 72,224,329</u></u>
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The accompanying notes are an integral part of these financial statements.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2015

Fund balance - total governmental funds (page 9) \$ 70,249,339

Amounts reported for governmental activities in the statement
of net position are different because:

Deferred charge on refunding is not included in long-term liabilities and, therefore
is not reported in the governmental funds. 418,558

Long-term liabilities, including bonds payable, are not due and payable in the
current period, and therefore are not reported in the governmental funds. Interest
on long-term debt is not accrued in governmental funds, but rather is recognized as
an expenditure when due. All liabilities are reported in the statement of net position.

Balances as of the end of the year are:

Accrued interest on long-term debt	(24,573)
Bonds payable	<u>(15,401,670)</u>

Net Position of Governmental Activities (page 7) \$ 55,241,654

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2015

Revenues	
Sales & use tax	\$ 17,348,129
Interest income	321,280
Total Revenues	<u>17,669,409</u>
Expenditures	
Project charges	3,468,523
Administration charges	18,787
Accounting and audit expense	15,845
Legal expense	8,507
Other Charges:	
Debt Service:	
Principal	4,640,000
Interest	733,866
Administration and issuance fees	7,675
Total Expenditures	<u>8,893,203</u>
Net Change in Fund Balance	8,776,206
Fund Balance - Beginning of Year	<u>61,473,133</u>
Fund Balance - End of Year	<u><u>\$ 70,249,339</u></u>

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2015

Net change to fund balance - total governmental funds (page 11) \$ 8,776,206

Amounts reported for governmental activities in the
statement of activities are different because:

Under the modified accrual basis of accounting used in the governmental
funds, interest on long-term debt is not recognized until due. In the
statement of activities, however, which is presented on the accrual basis
interest on long-term debt is recognized as it accrues.

Change in accrued interest on long-term debt 4,547

Amortization of premiums related to long-term debt do not use
current financial resources but is recorded as a reduction of interest
expense on the statement of net position. 21,040

Repayment of debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net position.

Principal repayments:

Bond payments 4,640,000

Change in Net Position of Governmental Activities (page 8) \$ 13,441,793

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

NOTES TO COMPONENT UNIT 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 Authority, and other necessary disclosure of pertinent matters relating to the financial position of the Authority. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The role of the Napa County Flood Protection and Watershed Improvement Authority is to contract with the Board of Equalization for collection of sales tax and establish individual accounts for each jurisdiction; disburse revenues through project contracts which meet Measure A compliance; obtain the necessary debt financing for the Napa Project; and perform annual audits. The Authority is subject to review by the Financial Oversight Committee. The Authority contracts with the Napa County Flood Control and Water Conservation District to perform most of these functions on its behalf. The Memorandum of Understanding, replaced by the Joint Powers Agreement Regarding the Use and Equitable Distribution of Flood Protection Sales Tax Revenues, along with an annual budget amendment, is the mechanism for contracting with the District to carry out these functions.

The Authority is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Authority. As such, the Authority is an integral part of the County and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements of the County. The Authority is a special revenue fund of the County of Napa.

The Authority includes all operating activities considered to be a part of the Authority. The Authority reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the Authority is financially accountable for other entities. The Authority has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements.

B. Measure A

Measure A is an ordinance of the Napa County Flood Protection and Watershed Improvement Authority imposing a 1/2% Napa County Flood Protection Transactions (sales) and use tax pursuant to the provisions of Revenue and Taxation Code Section 7285.5, establishing a Napa County Flood Protection and Watershed Improvement Expenditure Plan, establishing a Financial Oversight Committee and Technical Advisory Panel, requiring any funds generated as a result of the imposition of the Napa County Flood Protection Transactions (sales) and use tax to be spent on the projects identified in the expenditure plan, authorizing the issuance of bonds or other obligations to finance the projects identified in the expenditure plan payable from the revenues generated by the transactions (sales) and use tax and establishing an appropriations limit.

County voters approved Measure A in March 1998 by a 68% majority for a 20-year period, countywide. This tax originally expected to generate in excess of \$6 million per year, 2/3 of which is to be used to help pay the local share (50%) of the Napa River/Napa Creek Flood Protection Project ("Napa Project"), a construction project in partnership with the U.S. Army Corps of Engineers. The U.S. Army Corps of Engineers has updated its estimate of total project costs to \$555.3 million. The Napa Project will provide 100-year flood protection throughout the City of Napa as a result of widening the river channel, bridge replacement, floodwall and levee construction, and the creation of a "dry bypass" channel in downtown Napa to handle overflows. Additional information about the Napa Project can be obtained from the Napa County Flood Control and Water Conservation District, 804 First Street, Napa, CA 94559.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

B. Measure A (continued)

The remaining 1/3 of these funds will be allocated among the other County jurisdictions – in proportion to their historical sales tax revenue proceeds – in order to help them pay for their own flood protection or watershed management projects. However, because of the front-end financing needs of the Napa Project, the municipalities have loaned collected sales tax exceeding \$1 million to the project for the first seven (7) years of the Flood Protection Sales tax term. Repayment of this loan, including interest, began in year 8 of the tax and will be fully paid by the termination of the tax in year 20.

C. Memorandum of Understanding (MOU)/Joint Powers Agreement (JPA)

The County of Napa (County), Napa County Flood Protection and Watershed Improvement Authority (Authority), the Napa County Flood Control and Water Conservation District (District), the Cities of American Canyon, Napa, St. Helena, Calistoga and the Town of Yountville (Municipalities) each have a representative to be a signatory to the MOU after receiving authority from their Governing Body. This MOU is the precursor to the Joint Powers Agreement Regarding the Equitable Distribution of Flood Protection Sales Tax revenues which was signed November 1, 1998 between the Authority, the District, the County and the Municipalities as required by Section 3(g) and Section 5 of the Napa County Flood Protection Sales Tax Ordinance (97-1), (Ordinance). The Ordinance requires that new revenues generated by a 1/2% increase in the local sales tax fund only the flood protection, water supply reliability and wastewater projects identified in the Napa County Flood Protection and Watershed Improvement Expenditure Plan (Plan) contained in the Ordinance. This MOU/JPA contains operating policies and criteria regarding equitable distribution of new sales tax revenues to the County and Municipalities, debt financing for projects contained in the Plan, project substitution, fund accounting, contract relationships and administrative support to the Financial Oversight Committee and Technical Advisory Panel established by the Ordinance.

D. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the primary government (the Authority). These statements include the non-fiduciary financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and information sales. At June 30, 2015, the Authority had no business-type activities.

The Statement of Activities demonstrates the degree to which the program expenses of a given function or identifiable activity is offset by program revenues. Program expenses are those that are clearly identifiable with a specific function or identifiable activity, and allocated indirect expenses. Interest expense related to long-term debt is reported as a direct expense. Program revenues include 1) fees, fines and charges paid by the recipient of goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The Authority did not have any program revenues for the year ended June 30, 2015. Revenues that are not classified as program revenues, including all taxes and investment earnings, are presented instead as general revenues.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

When both restricted and unrestricted net position are available, restricted resources are used first, and then unrestricted resources are used as needed.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Authority had only one governmental fund and no enterprise fund for the year ended June 30, 2015.

E. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes. On an accrual basis, revenues from sales tax are recognized when the underlying transactions take place.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Sales taxes and interest revenues are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Proceeds of general long-term debt are reported as other financial sources.

F. Sales Taxes

All sales taxes are levied and collected by the California State Board of Equalization and paid upon collection to the various taxing entities including the Authority. An estimate is paid in the first two months of each quarter, and adjusted in the third month of the quarter to reflect the actual share of sales taxes due to the Authority.

G. Due from Other Agencies

These amounts represent receivables from other local governments that management has determined to be fully collectible. Accordingly, no allowance for doubtful accounts has been made.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 2: CASH AND INVESTMENTS

The Authority holds its cash and investments as follows:

A. Cash Held with the Napa County Treasury

Cash at June 30, 2015, consisted of the following:

Cash in County Treasury	\$ 68,450,488
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The Authority maintains all of its cash and investments with the Napa County Treasurer in an investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Napa's financial statements may be obtained by contacting the County of Napa Auditor-Controller office at 1195 Third Street, Room B-10, Napa, CA 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

At June 30, 2015, the difference between the cost and fair value of cash and investments was not material. Therefore, an adjustment to fair value was not required for GASB 31 compliance.

Required disclosures for the Authority's deposit and investment risks at June 30, 2015, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

B. Cash Held with Fiscal Agent

The Authority holds all of its restricted cash, except for the reserve above held in the treasury, with US Bank (Agent). The Authority holds the cash related to the 2005 Tax Refunding Bonds and 2013A Bonds in five separate accounts each: a principal fund, an interest fund, a revenue fund, a reserve fund, and a project or escrow fund.

At June 30, 2015, the Authority's deposit balances with the fiscal agent totaled \$484,070. Required disclosures for the Authority's deposit and investment risks at June 30, 2015, were as follows:

Credit risk	Not applicable
Custodial risk	None
Concentration of credit risk	Not applicable
Interest rate risk	Not applicable

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 3: BONDS PAYABLE

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Amount Due Within a Year</u>
Governmental Activities:					
2013 Series A Bonds	\$ 5,070,000	\$ --	\$ (1,240,000)	\$ 3,830,000	\$ 1,260,000
Series 2005 Tax Refunding Bonds	14,490,000	--	(3,400,000)	11,090,000	3,530,000
Plus deferred amounts:					
For issuance premiums	<u>642,228</u>	<u>--</u>	<u>(160,558)</u>	<u>481,670</u>	<u>--</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 20,202,228</u>	<u>\$ --</u>	<u>\$ (4,800,558)</u>	<u>\$ 15,401,670</u>	<u>\$ 4,790,000</u>

Annual debt service requirements are as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,790,000	\$ 589,754
2017	4,965,000	413,466
2018	<u>5,165,000</u>	<u>211,371</u>
Subtotal	<u>\$ 14,920,000</u>	<u>\$ 1,214,591</u>
Deferred amounts - net	<u>481,670</u>	
	<u>\$ 15,401,670</u>	

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 3: BONDS PAYABLE (continued)

Long-term debt at June 30, 2015, consisted of the following:

	<u>Date of Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2015</u>
Bonds Payable						
Series 2005 Tax Refunding Bonds (to partially refund the 1999 Series A Bonds, and to pay the costs of issuance of the Series 2005 Tax Refunding Bonds).						
Series 2005 Tax Refunding Bonds	7/12/2005	2018	3.20 - 5.00%	\$55,000 - \$3,870,000	\$ 29,710,000	\$ 11,090,000
2013 Series A Bonds (to finance or reimburse the Napa County Flood Protection and Watershed Improvement Authority for certain costs of the City of St. Helena's Flood Protection and Watershed Improvement Project, to pay the premium of a surety bond to be deposited in the Bond Reserve Fund established under the indenture, and to pay the costs of issuance of the 2013 Series A Bonds).						
2013 Series A	10/1/2013	2018	1.38%	\$820,000 - 1,295,000	<u>5,890,000</u>	<u>3,830,000</u>
Total Bonds Payable					<u>\$ 35,600,000</u>	<u>\$ 14,920,000</u>

Refunding Bonds

The 2013 Series A bonds were issued on October 1, 2013 in the amount of \$5,890,000 to refund the 2005 Series A Bonds originally issued in the aggregate principal amount of \$13,655,000. The new bonds bear interest rate of 1.38% and are due in annual installments ranging from \$1,240,000 to \$1,295,000 through June 30, 2018.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. No arbitrage fees were due or paid during the current fiscal year.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 4: NET POSITION/FUND BALANCES

Net Position

Net position equates to the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following two components: investment in capital assets and restricted. Investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of all other net position restricted for flood projects and not included in the above category.

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spend. As of June 30, 2015, fund balances for governmental funds are made up of the following:

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

The Authority’s fund balance is restricted according to the Napa County Flood Protection Sales Tax Ordinance (97-1) between the Authority, the District, the County and the Municipalities. As of June 30, 2015, the fund balance was restricted as follows:

Restricted:

City of American Canyon	\$ 8,798,630
City of Calistoga	1,528,063
City of Napa	31,841,137
City of St. Helena	4,361,106
Town of Yountville	2,293,958
Unincorporated – County of Napa	6,834,862
Maintenance Reserve	14,107,513
Debt Service	484,070
Total	\$ 70,249,339

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to Component Unit Financial Statements (continued)
For the Fiscal Year Ended June 30, 2015

NOTE 5: RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2015, the Authority paid the County of Napa, a related party, \$36,705, of which \$12,353 was for Measure A administration services, \$15,845 for accounting services, and \$8,507 for legal services.

The Authority paid \$607,686 to the Town of Yountville, \$272,782 to the City of Calistoga, \$1,015,795 to the City of American Canyon, and \$1,572,260 to the County of Napa for their respective flood control projects.

The Authority paid project related bond payments, including interest, for the City of Napa Project in the amount of \$4,067,025 and for the City of St. Helena in the amount of \$1,314,516.

NOTE 6: INSURANCE AND RISK OF LOSS

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Because the Authority does not have employees, it is not exposed to injuries to employees. The Authority's officers are officials of the County, and therefore coverage for general liability and errors and omissions is provided under the County's program. This program is self-insured to a level of \$300,000, after which excess coverage is obtained through participation in the CSAC Excess Insurance Authority (EIA).

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REQUIRED SUPPLEMENTARY INFORMATION

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**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales & use tax	\$ 16,958,966	\$ 16,958,966	\$ 17,348,129	\$ 389,163
Interest income	245,000	245,000	321,280	76,280
Total Revenues	<u>17,203,966</u>	<u>17,203,966</u>	<u>17,669,409</u>	<u>465,443</u>
Expenditures				
Project charges	19,600,000	21,337,502	3,468,523	17,868,979
Administration charges	213,600	213,600	18,787	194,813
Accounting and audit expense	25,000	25,000	15,845	9,155
Legal charges	40,000	40,000	8,507	31,493
Debt Service:				
Principal	4,640,000	4,640,000	4,640,000	--
Interest	733,866	733,866	733,866	--
Administration and issuance fees	10,000	10,000	7,675	2,325
Total Expenditures	<u>25,262,466</u>	<u>26,999,968</u>	<u>8,893,203</u>	<u>18,106,765</u>
Net Change in Fund Balance	<u>\$ (8,058,500)</u>	<u>\$ (9,796,002)</u>	8,776,206	<u>\$ 18,572,208</u>
Fund Balance - Beginning of the Year			<u>61,473,133</u>	
Fund Balance - End of the Year			<u>\$ 70,249,339</u>	

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY**

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2015

BUDGETARY BASIS OF ACCOUNTING

The Authority operates under the general laws of the State of California and annually adopts a budget to be effective July 1 of the ensuing fiscal year. Formal budgetary integration is employed as a management control device during the year for all governmental fund types. The level of control (level at when expenditures may not exceed budget) is the fund. Unused appropriations for all of the above annually budgeted funds lapse at the end of the fiscal year.

Budget information is presented for the Authority's only fund. The Authority makes adjustments to its original budget during the year. This enables the effectiveness of the Authority in meeting budget objectives to be evaluated and the adequacy of the budget itself to be judged. The only exceptions to this are the appropriations of unanticipated revenues and the revision of appropriations to reflect major economic up or down turns materially affecting estimated revenues. Expenditures in excess of budgeted amounts are approved individually by the Board. Annual appropriated budgets are adopted for the Authority. It is this final revised budget that is presented in these financial statements.

Budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

OTHER REPORT

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Napa County Flood Protection and Watershed Improvement Authority
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 Napa County Flood Protection and Watershed Improvement Authority (Authority), a component unit of the County of Napa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Napa County Flood Protection and Watershed Improvement Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 entity'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 Authority'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*.

Board of Directors
Napa County Flood Protection and Watershed Improvement Authority

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned above the typed name and date.

Roseville, California
October 27, 2015