

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

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

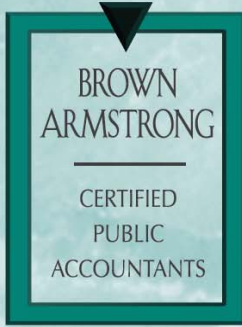
**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
JUNE 30, 2017**

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FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

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 governmental activities and the major fund of the Napa County Flood Protection and Watershed Improvement Authority (the Authority), a component unit of the County of Napa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BAKERSFIELD OFFICE (MAIN OFFICE)

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

FRESNO OFFICE

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

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92563
TEL 949.652.5422

STOCKTON OFFICE

5250 CLAREMONT AVENUE
SUITE 150
STOCKTON, CA 95207
TEL 209.451.4833

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Authority, as of June 30, 2017, and the changes in the financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of the 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 the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 28, 2017

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

This section of the Napa County Flood Protection and Watershed Improvement Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year that ended on June 30, 2017. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority collected \$18,600,497 in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A, during the fiscal year.
- The Authority provided \$5,417,867 to its members for their respective flood control projects, made bond payments (including interest and administrative charges) in the amount of \$5,380,316, and kept administrative costs to \$41,242 or 0.22% of total revenues for the year.
- The cash position of the Authority remained strong with \$77,142,814 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 Financial Statements

The government-wide financial 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 financial statements report the Authority's net position and how it has changed. Net position – the difference between the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources – 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.

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>2017</u>	<u>2016</u>	<u>Variance</u>
Current Assets	<u>\$ 81,196,334</u>	<u>\$ 77,589,582</u>	<u>\$ 3,606,752</u>
Total Assets	<u>81,196,334</u>	<u>77,589,582</u>	<u>3,606,752</u>
Deferred Outflows of Resources	<u>139,518</u>	<u>279,036</u>	<u>(139,518)</u>
Total Deferred Outflows of Resources	<u>139,518</u>	<u>279,036</u>	<u>(139,518)</u>
Current Liabilities	6,212,783	10,512,076	(4,299,293)
Long-Term Liabilities	<u>-</u>	<u>5,486,112</u>	<u>(5,486,112)</u>
Total Liabilities	<u>6,212,783</u>	<u>15,998,188</u>	<u>(9,785,405)</u>
Net Position			
Restricted	<u>75,123,069</u>	<u>61,870,430</u>	<u>13,252,639</u>
Total Net Position	<u><u>\$ 75,123,069</u></u>	<u><u>\$ 61,870,430</u></u>	<u><u>\$ 13,252,639</u></u>

The Authority's net position increased \$13.3 million from \$61,870,430 at June 30, 2016, to \$75,123,069 at June 30, 2017. The increase is primarily due to a combination of lower than anticipated draws on these funds for project costs and increased revenue due to normal healthy economic growth. Total liabilities decreased \$9.8 million over the prior year primarily due to a net decrease in the outstanding principal on the Authority's long-term debt.

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, is as follows:

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

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Revenues:			
Sales and Use Tax	\$ 18,600,497	\$ 17,863,549	\$ 736,948
Interest Income	497,106	391,496	105,610
Total Revenues	<u>19,097,603</u>	<u>18,255,045</u>	<u>842,558</u>
Expenses:			
Public Protection	5,459,109	11,059,719	(5,600,610)
Interest on Long-Term Debt	385,855	566,550	(180,695)
Total Expenses	<u>5,844,964</u>	<u>11,626,269</u>	<u>(5,781,305)</u>
Change in Net Position	13,252,639	6,628,776	6,623,863
Net Position - Beginning of Year	<u>61,870,430</u>	<u>55,241,654</u>	<u>6,628,776</u>
Net Position - End of Year	<u>\$ 75,123,069</u>	<u>\$ 61,870,430</u>	<u>\$ 13,252,639</u>

The sales and use taxes in 2017 were slightly higher from the prior year due to normal healthy economic growth. 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, 2017. 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 of Napa'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 of Directors. The Authority has only a special revenue fund which is the operating fund.

Actual expenditures were approximately \$3.6 million less than the final budget projections, due to lower than anticipated draws from the funds for project costs.

DEBT ADMINISTRATION

On July 12, 2005, the 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 bonds, including the premium for bond insurance. A principal payment of \$3,690,000 was made during this fiscal year. The principal balance outstanding at June 30, 2017 is \$3,870,000 and is due in fiscal year 2017-2018. The bonds will be fully paid for by June 2018.

On October 1, 2013, the 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 Limited Tax Bonds, 2005 Series A were issued to finance certain public flood protection and watershed improvement projects. A principal payment of \$1,275,000 was made during this fiscal year. The principal balance outstanding at June 30, 2017 is \$1,295,000 and is due in fiscal year 2017-2018. The bonds will be fully paid for by June 2018.

CONTACTING THE AUTHORITY

These financial statements are 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.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017**

Assets

Current Assets:

Cash and Investments in County Treasury	\$ 77,142,814
Cash with Fiscal Agent	488,325
Taxes Receivable	<u>3,565,195</u>

Total Current Assets	<u>81,196,334</u>
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Total Assets	<u>81,196,334</u>
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Deferred Outflows of Resources

Deferred Charge on Refunding	<u>139,518</u>
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Total Deferred Outflows of Resources	<u>139,518</u>
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Liabilities

Current Liabilities:

Accounts Payable	878,422
Accrued Interest	8,807
Bonds Payable, Current Portion	<u>5,325,554</u>

Total Current Liabilities	<u>6,212,783</u>
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Long-Term Liabilities:

Bonds Payable, Net of Premiums	<u>-</u>
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Total Liabilities	<u>6,212,783</u>
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Net Position

Restricted for Flood Projects	<u>75,123,069</u>
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Total Net Position	<u><u>\$ 75,123,069</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
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Expenses

Public Protection:	
Project Charges	\$ 5,417,867
Administration Charges	15,851
Accounting and Audit Expense	20,417
Legal Expense	4,974
Interest, Administration, and Issuance fees	<u>385,855</u>
Total Expenses	<u>5,844,964</u>

Revenues

Sales and Use Tax	18,600,497
Interest Income	<u>497,106</u>
Total Revenues	<u>19,097,603</u>

Change in Net Position	<u>13,252,639</u>
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Net Position - Beginning of Year	<u>61,870,430</u>
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Net Position - End of Year	<u><u>\$ 75,123,069</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
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017**

Assets

Cash and Investments in County Treasury	\$ 77,142,814
Cash with Fiscal Agent	488,325
Taxes Receivable	<u>3,565,195</u>

Total Assets \$ 81,196,334

Liabilities

Accounts Payable	<u>\$ 878,422</u>
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Total Liabilities 878,422

Fund Balance

Restricted	<u>80,317,912</u>
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Total Fund Balance 80,317,912

Total Liabilities and Fund Balance \$ 81,196,334

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund Balance - Total Governmental Fund (Page 9)	\$ 80,317,912
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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 fund.	139,518
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund. Interest on long-term debt is not accrued in governmental fund, 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	(8,807)
Bonds payable	<u>(5,325,554)</u>

Net Position of Governmental Activities (Page 7)	<u><u>\$ 75,123,069</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
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Revenues	
Sales and Use Tax	\$ 18,600,497
Interest Income	497,106
	<hr/>
Total Revenues	19,097,603
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Expenditures	
Project Charges	5,417,867
Administration Charges	15,851
Accounting and Audit Expense	20,417
Legal Expense	4,974
Other Charges:	
Debt Service:	
Principal	4,965,000
Interest	413,466
Administration and Issuance Fees	1,850
	<hr/>
Total Expenditures	10,839,425
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Net Change in Fund Balance	8,258,178
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Fund Balance - Beginning of Year	72,059,734
	<hr/>
Fund Balance - End of Year	\$ 80,317,912
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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 STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balance - Total Governmental Fund (Page 11) \$ 8,258,178

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

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

Change in accrued interest on long-term debt 8,421

Amortization of premiums related to long-term debt do not use current financial resources but are 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 fund, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments:
Bond payments 4,965,000

Change in Net Position of Governmental Activities (Page 8) \$ 13,252,639

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 THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The role of the Napa County Flood Protection and Watershed Improvement Authority (the 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 Authority's Financial Oversight Committee. The Authority contracts with the Napa County Flood Control and Water Conservation District (the 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 of Napa (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 in the basic financial statements of the County. The Authority is a special revenue fund of the County.

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, and amended by Statement No. 61, 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 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 estimated total project cost is \$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 District, 804 First Street, Napa, CA 94559.

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 Napa County Flood Protection Sales tax term. Repayment of this loan, including interest, began in year 8 of the tax and was fully paid in fiscal year 2016. This tax sunsets on June 30, 2018.

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

The County; the Authority; the District; and the Cities of American Canyon, Napa, St. Helena, and Calistoga, as well as the Town of Yountville (the 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, 2017, 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, 2017. Revenues that are not classified as program revenues, including all taxes and investment earnings, are presented instead as general revenues.

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 fund. 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 funds for the year ended June 30, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of accounting, 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 the accrual basis of 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 accounting principles generally accepted in the United States of America 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.

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, 2017, consisted of the following:

Cash in County Treasury	<u>\$ 77,142,814</u>
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The Authority maintains all of its cash and investments with the 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's financial statements may be obtained by contacting the County Auditor-Controller office at 1195 Third Street, Room B-10, Napa, CA 94559. The County Treasury Oversight Committee oversees the Treasurer's investments and policies.

NOTE 2 – CASH AND INVESTMENTS (Continued)

A. Cash Held with the Napa County Treasury (Continued)

At June 30, 2017, 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 Statement No. 31 or GASB Statement No. 72 compliance.

Required disclosures for the Authority’s deposit and investment risks at June 30, 2017, 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. The Authority has no deposit or investment policy that addresses a specific type of risk.

B. Cash Held with Fiscal Agent

The Authority holds all of its restricted cash with US Bank (Agent). The Authority holds the cash related to the Series 2005 Limited Tax Refunding Bonds and 2013 Series A Limited Tax Refunding 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, 2017, the Authority’s deposit balances with the fiscal agent totaled \$488,325, which is composed of money market funds. Required disclosures for the Authority’s deposit and investment risks at June 30, 2017, were as follows:

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

NOTE 3 – BONDS PAYABLE

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within a Year
Governmental Activities:					
Series 2005 Limited Tax Refunding Bonds	\$ 7,560,000	\$ -	\$ (3,690,000)	\$ 3,870,000	\$ 3,870,000
2013 Series A Limited Tax Refunding Bonds	2,570,000	-	(1,275,000)	1,295,000	1,295,000
Plus Deferred Amounts:					
For Issuance Premiums	321,112	-	(160,558)	160,554	160,554
Total Governmental Activities Long-Term Liabilities	<u>\$ 10,451,112</u>	<u>\$ -</u>	<u>\$ (5,125,558)</u>	<u>\$ 5,325,554</u>	<u>\$ 5,325,554</u>

NOTE 3 – BONDS PAYABLE (Continued)

Annual debt service requirements are as follows:

Year Ending June 30	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2018	\$ 5,165,000	\$ 211,371
Subtotal	5,165,000	\$ 211,371
Deferred Amounts - Net	160,554	
	<u>\$ 5,325,554</u>	

Long-term debt at June 30, 2017, consisted of the following:

Bonds Payable	Date of Issue	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
Series 2005 Limited Tax Refunding Bonds (to partially refund the 1999 Series A Bonds, and to pay the costs of issuance of the Series 2005 Limited Tax Refunding Bonds)						
Series 2005 Limited Tax Refunding Bonds	7/12/2005	2018	3.25 - 5.00%	\$50,000 - \$3,870,000	\$ 29,710,000	\$ 3,870,000
2013 Series A Limited Tax Refunding Bonds (to finance or reimburse the 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 Limited Tax Refunding Bonds)						
2013 Series A Limited Tax Refunding Bonds	10/1/2013	2018	1.38%	\$820,000 - \$1,295,000	5,890,000	1,295,000
Total Bonds Payable					<u>\$ 35,600,000</u>	<u>\$ 5,165,000</u>

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.

NOTE 4 – NET POSITION/FUND BALANCE

Net Position

Net position equates to the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following two components: net investment in capital assets and restricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. 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.

NOTE 4 – NET POSITION/FUND BALANCE (Continued)

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, 2017, 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* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the 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 Ordinance between the Authority, the District, the County, and the Municipalities. As of June 30, 2017, the fund balance was restricted as follows:

Restricted:	
City of American Canyon	\$ 7,029,317
City of Calistoga	1,590,179
City of Napa	43,053,045
City of St. Helena	5,178,439
Town of Yountville	63,215
Unincorporated – County of Napa	7,932,992
Maintenance Reserve	14,982,400
Debt Service	<u>488,325</u>
Total	<u>\$ 80,317,912</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2017, the Authority paid the County, a related party, \$29,084, of which \$12,693 was for Measure A administration services, \$11,417 for accounting services, and \$4,974 for legal services.

The Authority paid \$689,841 to the Town of Yountville, \$188,477 to the City of Calistoga, \$937,012 to the City of American Canyon, and \$3,602,537 to the County for their respective flood control projects.

The Authority paid project related bond payments, including interest and administrative fees, for the Napa Project in the amount of \$4,068,050 and for the City of St. Helena in the amount of \$1,312,266.

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 California State Association of Counties (CSAC) Excess Insurance Authority (EIA).

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 28, 2017, which is the date the basic financial statements were available to be issued. No events have occurred that would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales and Use Tax	\$ 17,938,600	\$ 17,938,600	\$ 18,600,497	\$ 661,897
Interest Income	277,000	277,000	497,106	220,106
Total Revenues	<u>18,215,600</u>	<u>18,215,600</u>	<u>19,097,603</u>	<u>882,003</u>
Expenditures				
Project Charges	8,625,000	8,775,000	5,417,867	3,357,133
Administration Charges	168,000	168,000	12,693	155,307
Accounting and Audit Expense	30,000	30,000	20,417	9,583
Publication and Legal Notices	10,000	10,000	3,158	6,842
Freight/Postage	100	100	-	100
Legal Expense	40,000	40,000	4,974	35,026
Other Charges:				
Debt Service:				
Principal	4,965,000	4,965,000	4,965,000	-
Interest	413,500	413,500	413,466	34
Administration and Issuance Fees	10,000	10,000	1,850	8,150
Total Expenditures	<u>14,261,600</u>	<u>14,411,600</u>	<u>10,839,425</u>	<u>3,572,175</u>
Net Change in Fund Balance	<u>\$ 3,954,000</u>	<u>\$ 3,804,000</u>	8,258,178	<u>\$ 4,454,178</u>
Fund Balance - Beginning of Year			<u>72,059,734</u>	
Fund Balance - End of Year			<u>\$ 80,317,912</u>	

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

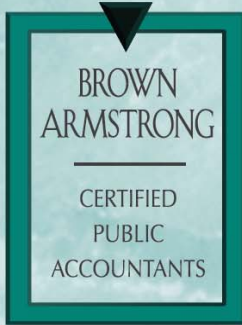
BUDGETARY BASIS OF ACCOUNTING

The Napa County Flood Protection and Watershed Improvement Authority (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 which 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 accounting principles generally accepted 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



BROWN ARMSTRONG

Certified Public Accountants

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

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

BAKERSFIELD OFFICE (MAIN OFFICE)

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

FRESNO OFFICE

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

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92563
TEL 949.652.5422

STOCKTON OFFICE

5250 CLAREMONT AVENUE
SUITE 150
STOCKTON, CA 95207
TEL 209.451.4833

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Napa County Flood Protection and Watershed Improvement Authority (the Authority), a component unit of the County of Napa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 28, 2017.

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 the 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*.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
November 28, 2017