

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

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

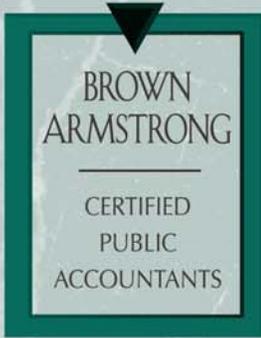
**FOR THE FOUR-MONTH PERIOD ENDED
OCTOBER 31, 2018
AND
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
OCTOBER 31, 2018 AND JUNE 30, 2018**

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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 four-month period ended October 31, 2018 and as of and for the fiscal year ended June 30, 2018, 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 audits. We conducted our audits 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 audits 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.

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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 October 31, 2018 and June 30, 2018, and the changes in the financial position for the four-month period ended October 31, 2018 and fiscal year ended June 30, 2018, 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 December 5, 2018, 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

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

Bakersfield, California
December 5, 2018

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 fiscal year that ended on June 30, 2018, and the subsequent closure of the fund on October 31, 2018. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2017-18

- The Authority collected \$19,334,462 in Napa County Flood Protection Transactions (sales) and use tax pursuant to Measure A during the fiscal year.
- The Authority provided \$6,510,356 to its members for their respective flood control projects, made bond payments (including interest and administrative charges) in the amount of \$5,381,871, and kept administrative costs to \$200,666 or 1.02% of total revenues for the fiscal year.
- Prior to the end of the fiscal year, the Authority and its members approved final distribution procedures for the Measure A sales tax due to the tax sunset as of June 30, 2018. The procedures resulted in finalizing the activity through October 31, 2018, once all the sales tax was received from the State. Once the final balances were known, the closeout procedures called for transferring the balances of the remaining funds to the corresponding taxing entity. The final accrual for this distribution of funds was in the amount of \$89,387,995, which has been reported as an expense as of June 30, 2018.
- Due to Governmental Accounting Standards Board (GASB) Statements No. 31 and No. 72, the market value of investments as of June 30, 2018, has been marked down to fair market by \$433,745, showing less cash than actual as of the reporting period, resulting in a negative fund balance to close the year.

Subsequent Period July 1, 2018 through October 31, 2018

- Cash has been restated to market value of actual cash holdings of the Authority as of July 1, 2018.
- The Authority made normal payments to jurisdictions for the prior year's fourth quarter project costs in the amount of \$962,281.
- The Authority received its final sales tax revenues and distributed balances to each jurisdiction as follows:

City of Napa and Vicinity (transferred to the Flood District)	\$50,570,643
City of American Canyon	\$ 8,150,247
City of Calistoga	\$ 1,857,463
City of St. Helena	\$ 4,024,121
Town of Yountville	\$ 240,526
County of Napa – Unincorporated Projects	\$ 8,097,790
Maintenance Reserve (transferred to the Flood District)	<u>\$15,484,924</u>
Final distribution as of October 31, 2018	<u>\$88,425,714</u>

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 Statements of Net Position is as follows:

Condensed Statements of Net Position As of June 30,

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Current Assets	<u>\$ 88,954,250</u>	<u>\$ 81,196,334</u>	<u>\$ 7,757,916</u>
Total Assets	<u>88,954,250</u>	<u>81,196,334</u>	<u>7,757,916</u>
Deferred Outflows of Resources	<u>-</u>	<u>139,518</u>	<u>(139,518)</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>139,518</u>	<u>(139,518)</u>
Current Liabilities	<u>89,387,995</u>	<u>6,212,783</u>	<u>83,175,212</u>
Total Liabilities	<u>89,387,995</u>	<u>6,212,783</u>	<u>83,175,212</u>
Net Position			
Restricted	<u>(433,745)</u>	<u>75,123,069</u>	<u>(75,556,814)</u>
Total Net Position	<u>\$ (433,745)</u>	<u>\$ 75,123,069</u>	<u>\$ (75,556,814)</u>

The Authority's net position decreased \$75.5 million from \$75,123,069 at June 30, 2017, to \$(433,745) at June 30, 2018. The decrease is due to the accrued liabilities for the Authority on October 31, 2018, for the final year of the sales tax measure. The negative net position was a result of an investment mark down to fair market value in the amount of \$433,745.

As of October 31, 2018, the Authority's net position was zero, with the full payment of all liabilities resulting in full disbursement of assets as of October 31, 2018.

Changes in Net Position

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

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

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Revenues:			
Sales and Use Tax	\$ 19,334,462	\$ 18,600,497	\$ 733,965
Interest Income	432,488	497,106	(64,618)
Total Revenues	<u>19,766,950</u>	<u>19,097,603</u>	<u>669,347</u>
Expenses:			
Public Protection	86,673,296	5,459,109	81,214,187
Interest on Long-Term Debt	187,028	385,855	(198,827)
Total Expenses	<u>86,860,324</u>	<u>5,844,964</u>	<u>81,015,360</u>
Change in Net Position	(67,093,374)	13,252,639	(80,346,013)
Transfers out	<u>(8,463,440)</u>	<u>-</u>	<u>(8,463,440)</u>
Change in Net Position after Transfers	(75,556,814)	-	(88,809,453)
Net Position - Beginning of Year	<u>75,123,069</u>	<u>61,870,430</u>	<u>13,252,639</u>
Net Position - End of Year	<u>\$ (433,745)</u>	<u>\$ 75,123,069</u>	<u>\$ (75,556,814)</u>

The sales and use taxes in 2018 were slightly higher from the prior year due to normal healthy economic growth. The most significant change in expenses was the overall increase in payments made to the members for their respective projects for the final distributions of the Authority. To better compare the two years, true projects costs (public protection expenses) for the fiscal year ended June 30, 2018, were \$6,510,356 as compared to \$5,459,109 in the prior year, an increase of 19% was due to timing of completed approved projects.

For the subsequent period from July 1, 2018 through October 31, 2018, the only activity that was reported is interest income for restoring the cash value to market, which was then fully disbursed with the closeout of the fund.

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 \$13.1 million less than the final budget projections, mainly due to an over estimation of the final distributions.

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 \$3,870,000 was made during this fiscal year. The bonds were fully paid by June 30, 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 \$1,295,000 was made during this fiscal year. The bonds were fully paid by June 30, 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
STATEMENTS OF NET POSITION
OCTOBER 31, 2018 AND JUNE 30, 2018**

Assets	<u>October 31, 2018</u>	<u>June 30, 2018</u>
Current Assets:		
Cash and Investments in County Treasury	\$ -	\$ 85,017,511
Cash with Fiscal Agent	-	66,567
Taxes Receivable	-	3,870,172
	<hr/>	<hr/>
Total Current Assets	-	88,954,250
	<hr/>	<hr/>
Total Assets	-	88,954,250
	<hr/>	<hr/>
Liabilities		
Current Liabilities:		
Accounts Payable	-	89,387,995
	<hr/>	<hr/>
Total Current Liabilities	-	89,387,995
	<hr/>	<hr/>
Total Liabilities	-	89,387,995
	<hr/>	<hr/>
Net Position		
Unrestricted	-	(433,745)
	<hr/>	<hr/>
Total Net Position	<u>\$ -</u>	<u>\$ (433,745)</u>

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE FOUR-MONTH PERIOD ENDED OCTOBER 31, 2018 AND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	July 1, 2018 to October 31, 2018	June 30, 2018
Expenses		
Public Protection:		
Project Charges	\$ -	\$ 86,472,630
Administration Charges	-	173,801
Accounting and Audit Expense	-	21,387
Legal Expense	-	5,478
Interest, Administration, and Issuance fees	-	187,028
Total Expenses	-	86,860,324
Revenues		
Sales and Use Tax	-	19,334,462
Interest Income	433,745	432,488
Total Revenues	433,745	19,766,950
Change in Net Position	433,745	(67,093,374)
Transfer Out	-	(8,463,440)
Net Change in Net Position after Transfers	433,745	(75,556,814)
Net Position - Beginning of Year	(433,745)	75,123,069
Net Position - End of Year	\$ -	\$ (433,745)

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
BALANCE SHEETS
GOVERNMENTAL FUND
OCTOBER 31, 2018 AND JUNE 30, 2018**

	<u>October 31, 2018</u>	<u>June 30, 2018</u>
Assets		
Cash and Investments in County Treasury	\$ -	\$ 85,017,511
Cash with Fiscal Agent	-	66,567
Taxes Receivable	-	3,870,172
	<hr/>	<hr/>
Total Assets	<u>\$ -</u>	<u>\$ 88,954,250</u>
Liabilities		
Accounts Payable	\$ -	\$ 89,387,995
	<hr/>	<hr/>
Total Liabilities	<u>-</u>	<u>89,387,995</u>
Fund Balance		
Unassigned	-	(433,745)
	<hr/>	<hr/>
Total Fund Balance	<u>-</u>	<u>(433,745)</u>
	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 88,954,250</u>

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
RECONCILIATIONS OF THE BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION
OCTOBER 31, 2018 AND JUNE 30, 2018**

	October 31, 2018	June 30, 2018
Fund Balance - Total Governmental Fund (Page 10)	\$ -	\$ (433,745)
Amounts reported for governmental activities in the statement of net position are different because:		
No activity	-	-
Net Position of Governmental Activities (Page 8)	\$ -	\$ (433,745)

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FOUR-MONTH PERIOD ENDED OCTOBER 31, 2018 AND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	July 1, 2018 to October 31, 2018	June 30, 2018
Revenues		
Sales and Use Tax	\$ -	\$ 19,334,462
Interest Income	433,745	432,488
	<hr/>	<hr/>
Total Revenues	433,745	19,766,950
	<hr/>	<hr/>
Expenditures		
Project Charges	-	86,472,630
Administration Charges	-	173,801
Accounting and Audit Expense	-	21,387
Legal Expense	-	5,478
Other Charges:		
Debt Service:		
Principal	-	5,165,000
Interest	-	211,371
Administration and Issuance Fees	-	5,500
	<hr/>	<hr/>
Total Expenditures	-	92,055,167
	<hr/>	<hr/>
Net Change in Fund Balance Before Transfers	433,745	(72,288,217)
Transfer Out	-	(8,463,440)
	<hr/>	<hr/>
Net Change in Fund Balance After Transfers	433,745	(80,751,657)
Fund Balance - Beginning of Year	(433,745)	80,317,912
	<hr/>	<hr/>
Fund Balance - End of Year	\$ -	\$ (433,745)
	<hr/>	<hr/>

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

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENTS OF ACTIVITIES
FOR THE FOUR-MONTH PERIOD ENDED OCTOBER 31, 2018 AND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	July 1, 2018 to October 31, 2018	June 30, 2018
Net Change in Fund Balance - Total Governmental Fund (Page 12)	\$ 433,745	\$ (80,751,657)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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.</p>		
Change in accrued interest on long-term debt	-	8,807
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.	-	21,036
<p>Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal repayments:		
Bond payments	-	5,165,000
Change in Net Position of Governmental Activities (Page 9)	\$ 433,745	\$ (75,556,814)

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
OCTOBER 31, 2018 AND JUNE 30, 2018**

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 (MOU), replaced by the Joint Powers Agreement (JPA) 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 is to 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 sunset on June 30, 2018.

C. MOU/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 JPA 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 October 31 and June 30, 2018, 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 four-month period ended October 31, 2018, or the fiscal year ended June 30, 2018. 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 either the four-month period ended October 31, 2018, or the fiscal year ended June 30, 2018.

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.

I. Final Distribution/Close of Fund

Measure A sunset June 30, 2018. Due to the legal nature of the fund, the Authority is charged to liquidate its assets and fulfill its liabilities within a reasonable time after sunset of the tax. The last sales tax revenues were collected by September 30, 2018, and have subsequently been distributed to the Authority's members.

NOTE 2 – CASH AND INVESTMENTS

The Authority holds its cash and investments as follows:

A. Cash Held with the Napa County Treasury

Cash consisted of the following:

	<u>October 31, 2018</u>	<u>June 30, 2018</u>
Cash in County Treasury	<u>\$ -</u>	<u>\$ 85,017,511</u>

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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.

At June 30, 2018, the Authority adjusted the difference between the cost and fair value of cash and investments in accordance with GASB Statement No. 31 and GASB Statement No. 72. The adjustment was a markdown of cash in the amount of \$433,745. This markdown was reversed as of July 1, with the true cash balance being distributed as of October 31, 2018.

Required disclosures for the Authority's deposit and investment risks at October 31, 2018 and June 30, 2018, 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 October 31, 2018 and June 30, 2018, the Authority's deposit balances with the fiscal agent totaled \$0 and \$66,567, respectively, which is composed of money market funds. Required disclosures for the Authority's deposit and investment risks at October 31, 2018 and June 30, 2018, 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 2005 and 2013 bonds have been fully paid as of June 30, 2018. The Authority has no additional outstanding debt. The following represents the changes in the long-term debt during the year:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Governmental Activities:				
Series 2005 Limited Tax Refunding Bonds	\$ 3,870,000	\$ -	\$ (3,870,000)	\$ -
2013 Series A Limited Tax Refunding Bonds	1,295,000	-	(1,295,000)	-
Plus Deferred Amounts:				
For Issuance Premiums	<u>160,554</u>	<u>-</u>	<u>(160,554)</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 5,325,554</u>	<u>\$ -</u>	<u>\$ (5,325,554)</u>	<u>\$ -</u>

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.

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 October 31, 2018 and June 30, 2018, 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.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2018, the Authority paid the County, a related party, \$200,666, of which \$173,801 was for Measure A administration services, \$21,387 for accounting services, and \$5,478 for legal services.

The Authority paid \$790,623 to the Town of Yountville, \$2,205,720 to the City of Calistoga, \$8,511,745 to the City of American Canyon, \$5,604,535 to the City of St. Helena, \$50,570,643 to Napa County Flood Control and Water Conservation District, and \$18,789,364 to the County for their respective flood control projects and closeout of the Authority.

The Authority paid project related bond payments, including interest and administrative fees, for the Napa Project in the amount of \$4,065,300 and for the City of St. Helena in the amount of \$1,316,571.

There were no related party transactions during the four-month period ended October 31, 2018.

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 December 5, 2018, 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, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales and Use Tax	\$ 18,424,600	\$ 18,424,600	\$ 19,334,462	\$ 909,862
Interest Income	261,000	261,000	432,488	171,488
Total Revenues	<u>18,685,600</u>	<u>18,685,600</u>	<u>19,766,950</u>	<u>1,081,350</u>
Expenditures				
Project Charges	20,250,000	99,566,100	86,472,630	13,093,470
Administration Charges	170,000	170,000	171,258	(1,258)
Accounting and Audit Expense	40,000	40,000	21,387	18,613
Publication and Legal Notices	10,000	10,000	2,543	7,457
Freight/Postage	100	100	-	100
Legal Expense	30,000	30,000	5,478	24,522
Other Charges:				
Debt Service:				
Principal	5,165,000	5,165,000	5,165,000	-
Interest	211,500	211,500	211,371	129
Administration and Issuance Fees	10,000	10,000	5,500	4,500
Transfers	-	8,470,000	8,463,440	6,560
Total Expenditures	<u>25,886,600</u>	<u>113,672,700</u>	<u>100,518,607</u>	<u>13,147,533</u>
Net Change in Fund Balance	<u>\$ (7,201,000)</u>	<u>\$ (94,987,100)</u>	<u>(80,751,657)</u>	<u>\$ 14,228,883</u>
Fund Balance - Beginning of Year			<u>80,317,912</u>	
Fund Balance - End of Year			<u>\$ (433,745)</u>	

See the accompanying note to the required supplementary information.

**NAPA COUNTY FLOOD PROTECTION AND
WATERSHED IMPROVEMENT AUTHORITY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

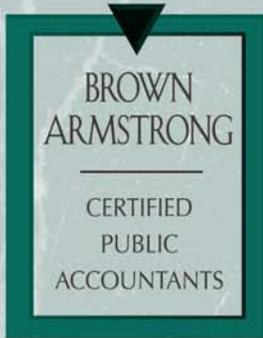
BUDGETARY BASIS OF ACCOUNTING

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 fiscal 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 of Directors. 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

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STOCKTON OFFICE

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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 four-month period ended October 31, 2018 and the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 5, 2018.

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
December 5, 2018