

**NAPA RIVER RECLAMATION DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and those charged with governance  
Napa River Reclamation District  
Napa, California

I have audited the accompanying financial statements of the business-type activities and the major fund of Napa River Reclamation District as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Napa River Reclamation District, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

Charles W. Pilon, CPA

September XX, 2019

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**NAPA RIVER RECLAMATION DISTRICT  
STATEMENTS OF NET POSITION  
June 30, 2019 and 2018**

	June 30, 2018	June 30, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 642,655	\$ 668,067
Prepaid expense	-	116
Accounts receivable - sewer assessments	3,557	6,075
Intergovernmental receivables	24,003	28,135
Total Current Assets	670,215	702,393
Noncurrent Assets:		
Land	32,820	32,820
Other capital assets, net of depreciation	345,074	303,341
Total Noncurrent Assets	377,894	336,161
Total Assets	\$ 1,048,109	\$ 1,038,554
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 29,111	\$ 605
Accrued payroll	4,136	4,685
Total Current Liabilities	33,247	5,290
Noncurrent Liabilities - Due in more than one year:		
Compensated absences	7,377	6,476
Total Noncurrent Liabilities	7,377	6,476
Total Liabilities	\$ 40,624	\$ 11,766
<b>NET POSITION</b>		
Investment in capital assets	377,894	336,161
Unrestricted	629,591	690,627
Total Net Position	\$ 1,007,485	\$ 1,026,788

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

**NAPA RIVER RECLAMATION DISTRICT**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION**  
**Fiscal Years Ended June 30, 2019 and 2018**

	June 30, 2018	June 30, 2019
<b>OPERATING REVENUES</b>		
Charges for services	\$ 162,742	\$ 162,742
Late penalties	4,375	83
	167,117	162,825
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	101,936	103,401
Maintenance and repairs	22,067	25,763
Professional services	92,532	38,468
Laboratory services	3,432	3,645
Insurance	10,270	9,872
Utilities	4,560	4,559
Supplies	381	1,552
Communications	1,828	2,312
Office expenses	498	559
Special department expense - fuel, permits, etc	2,318	3,152
Depreciation	69,967	68,364
	309,789	261,647
Net Operating (Loss)	(142,672)	(98,822)
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Property taxes	56,063	54,899
Interest income	6,480	12,356
Donations	3,500	-
Gain on sales of capital assets	-	46,910
Other State funding	-	3,960
	66,043	118,125
Increase (Decrease) in Net Position	(76,629)	19,303
Net Position - Beginning of Year	1,084,114	1,007,485
Net Position - End of Year	\$ 1,007,485	\$ 1,026,788

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

**NAPA RIVER RECLAMATION DISTRICT  
STATEMENTS OF CASH FLOWS  
Fiscal Years Ended June 30, 2019 and 2018**

	June 30, 2018	June 30, 2019
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 174,011	\$ 160,307
Cash paid to employees for wages and benefits	(101,793)	(103,869)
Cash paid to suppliers for goods and services	(117,017)	(118,387)
Net Cash Provided (Used) by Operating Activities	(44,799)	(61,949)
<b>Cash Flows From Noncapital Financing Activities:</b>		
Property tax receipts	41,201	50,766
Donations	3,500	-
Other State funding	-	3,960
Cash Provided by Noncapital Financing Activities	44,701	54,726
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition of capital assets	(11,670)	(26,631)
Proceeds from sale of capital assets	-	46,910
Net Cash Provided (Used) by Capital and Related Financing Activities	(11,670)	20,279
<b>Cash Provided by Investing Activities:</b>		
Interest received	6,480	12,356
Net Increase in Cash and Cash Equivalents	(5,288)	25,412
Cash and cash equivalents at beginning of year	647,943	642,655
Cash and cash equivalents at end of year	\$ 642,655	\$ 668,067
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating Income (Loss):	\$ (142,672)	\$ (98,822)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	69,967	68,364
Changes in certain assets and liabilities:		
Decrease (increase) in accounts receivable - sewer assessments	6,894	(2,518)
Decrease (increase) in prepaid expense	116	(116)
Increase (decrease) in accounts payable	20,753	(28,505)
Increase (decrease) in accrued payroll	(279)	549
Increase (decrease) in compensated absences payable	422	(901)
Total adjustments	97,873	36,873
Net Cash Provided (Used) by Operating Activities	\$ (44,799)	\$ (61,949)

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

Napa River Reclamation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Edgerly Island Reclamation District was organized on February 19, 1974, under Section 50000 et seq. of the Water Code of the State of California. The name was changed on January 9, 1985, from Edgerly Island Reclamation District to Napa River Reclamation District No. 2109 (the District).

Emergency legislation was enacted by the State Legislature effective September 30, 1981, which expressly authorized the District to engage in the disposal of sewage waste and to design, finance, construct, operate, and maintain wastewater treatment facilities. The wastewater treatment plant was placed into service in November 1984.

In addition to the wastewater treatment facilities, the District also functions to maintain and operate a flood pumping system for flood control and drainage purposes. The District consists of two funds: operating and accumulative capital outlay. The Board of Directors performs the managerial duties of the District. The District combined the operating and sewer fund in May of 2002. However, see Footnote No. 7.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either 1) the District's ability to impose its will over the organization or 2) the potential that the organization will provide a financial benefit to, or impose a financial burden on the District. Using these criteria, the District has no component units.

A. Basis of Presentation

The District uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid in financial management by segregating transactions related to certain government functions and related activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The District uses the proprietary fund type (Enterprise Fund) to account for its operations.

The basic financial statements required by Governmental Accounting Standards Board (GASB) Statement No. 34 include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The majority of the District's revenue comes from Napa County property and sewer assessment taxes, and accordingly it has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities.

This model allows all financial information for the District to be reported in a single column in each of the basic financial statements. In accordance with the business-type activities reporting model, the District prepares its Statement of Cash Flows using the direct method.

**Proprietary Fund**

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the members on a continuing basis be financed or recovered primarily through user charges. The Fund should be self-supporting, with user charges set at a level sufficient to meet operations and claims servicing. All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred.

Napa River Reclamation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

Proprietary funds are accounted for on a cost of services or economic resources measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

The District maintains its accounts on the accrual basis of accounting. Revenue is recorded when earned and expenses are recognized when incurred.

The District follows those Financial Accounting Standards Board Statements issued before November 13, 1989 that does not conflict with GASB Statements.

D. Use of Estimates

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; fines for non-compliance; and natural disasters for which the District carries commercial insurance.

F. Budgets

The District adopts a budget each year in June. Estimated revenues and proposed expenses are subjected to a line-by-line analysis by the Board. The budgets take effect as of July 1 every year. The budget may be revised by the Board during the year to give consideration to unanticipated revenue and expenses. The final amended budget is presented in the basic financial statements.

G. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include all cash accounts purchased with a maturity of three months or less.

H. Capital Assets

Purchased capital assets with a definition of equal to or greater than \$5,000 and a useful life in excess of one year are stated at historical cost or estimated historical cost when original cost is not available. Donated capital assets are recorded at the fair market value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful lives, ranging from five to forty years for plant structures and equipment, and five to ten years for office equipment and vehicles.

I. Operating and Non-Operating Revenues

Operating revenues, such as charges for services, result from exchange transactions. Exchange transactions are those in which each party receives and gives up essentially equal values. Charges for services, which are "county tax assessments for sewer use" in the case of the District, are the primary constituent of operating revenues. Non-operating revenues result from non-exchange transactions and are defined as those revenues that are not a direct result of operations, such as "interest".

Napa River Reclamation District  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Property Taxes

Napa County (the County) is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the Statute of Assembly Bill 8 plus a percentage of the increase in fair value in specific areas. Property taxes are levied on January 1 and are payable in two installments, on November 1 and March 1, which become delinquent after December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31.

The District participates in the County "Teeter Plan" method of property tax distribution and thus receives 100% of the District's apportionment each fiscal year, eliminating the need for an allowance for uncollectible. The County, in return, receives all penalties and interest on the related delinquent taxes. Under the Teeter Plan, the County remits property taxes to the District based on assessments, not on collections.

K. Compensated Absences

Vested or accumulated vacation leave and compensatory time off are recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. Accumulated employee sick leave benefits are not recognized as liabilities of the District since payment of such benefits is not probable. Therefore sick leave benefits are recorded as expenditures in the period that sick leave is taken.

L. Net Position

Invested in Capital Assets – This amount consists of capital assets net of accumulated depreciation.

Restricted Net Position – This amount consists of amounts restricted from external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all remaining net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents (investments) at June 30, 2019 and 2018 consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Pooled cash at Napa County	\$ 667,867	\$ 642,455
Imprest cash	200	200
Total cash and cash equivalents	\$ 668,067	\$ 642,655

Authorized Investments

Under provision of the District's Investment Policy, and in accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- County of Napa cash and investment pool
- Negotiable Certificates of Deposit
- Local Agency Investment Fund (State Pool) Deposits

Napa River Reclamation District  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

**NOTE 2 – CASH AND CASH EQUIVALENTS (concluded)**

The District's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end only if material, and it includes the effects of these adjustments in income for that fiscal year.

The District maintains specific cash deposits with the County and involuntarily participates in the external investment pool of the County. The County is restricted by state code in the types of investments it can make.

Furthermore, the County Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, the County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134. The County's investment policy authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2017 and 2016, the District's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

**NOTE 3 – CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the years ended June 30, are as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>							
Land	\$ 32,820	\$ -	\$ -	\$ 32,820	\$ -	\$ -	\$ 32,820
<b>OTHER CAPITAL ASSETS, BEING DEPRECIATED</b>							
Sewage plant and pump station improvements	2,213,353	-	-	2,213,353	26,631	-	2,239,984
Equipment	59,332	11,670	-	71,002	-	-	71,002
<b>Total Other Capital Assets being depreciated</b>	<b>2,272,685</b>	<b>11,670</b>	<b>-</b>	<b>2,284,355</b>	<b>26,631</b>	<b>-</b>	<b>2,310,986</b>
<b>LESS: ACCUMULATED DEPRECIATION</b>							
Sewage plant and pump station improvements	1,817,164	63,824	-	1,880,988	63,824	-	1,944,812
Equipment	52,150	6,143	-	58,293	4,540	-	62,833
<b>Total Accumulated Depreciation</b>	<b>1,869,314</b>	<b>69,967</b>	<b>-</b>	<b>1,939,281</b>	<b>68,364</b>	<b>-</b>	<b>2,007,645</b>
<b>Total Other Capital Assets, Net</b>	<b>403,371</b>	<b>(58,297)</b>	<b>-</b>	<b>345,074</b>	<b>(41,733)</b>	<b>-</b>	<b>303,341</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 436,191</b>	<b>\$(58,297)</b>	<b>\$ -</b>	<b>\$ 377,894</b>	<b>\$(41,733)</b>	<b>\$ -</b>	<b>\$ 336,161</b>

Napa River Reclamation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 4 – NON-CURRENT LIABILITIES

Compensated absences consist of accrued vacation at June 30, 2019 and 2018. The District's part-time employees accrue a portion of fifteen vacation days every year based on the actual number of hours worked in relation to full-time employment. The compensated absences accrual for the fiscal years ending June 30, 2019 and 2018 is \$6,476 and \$7,377, respectively.

NOTE 5 – DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457(b). The Plan, available to all full-time and permanent part-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District does not contribute to the plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefits of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property, are not managed by the District and are not subject to claims by general creditors of the District, they have been excluded from these basic financial statements.

NOTE 6 – COMPLIANCE

Presently the district does not operate under an existing operating permit from the State Water Resource Control Board (SWRCB) due to the SWRCB putting the District on "De-facto" permit status since 2006/2007. However, the District has been working diligently to resolve this issue, has paid all the necessary fees during these past ten (10) years and filed all the necessary reports. The permit issue is waiting to be resolved by a decision by SWRCB as to what type of permit the District should be issued and until that decision is made the SWRCB has informed the District that they are not in violation of any State laws and regulations. This "de-facto" status has also affected the District's ability to fully comply with other regulations that require the District to report what type of permit they operate under.

NOTE 7 – SUBSEQUENT EVENT

In July 2019, the Board of Directors approved a resolution to account for the operations of the District separately between Reclamation activities (a Governmental Fund) and Wastewater Treatment activities (an Enterprise Fund). This resolution also authorized splitting the beginning balance in the net position of the District between these two activities, effective July 1, 2019. The District allocated the net position ending balance as of June 30, 2019 in the amount of \$1,026,788 between the Reclamation activity (\$116,439 Unrestricted) and Wastewater Treatment (\$574,187 Unrestricted and \$336,161 Investment in Capital Assets).