

**NAPA SANITATION DISTRICT
NAPA, CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2011**





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FINANCIAL REPORT**

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2011**

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

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

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NAPA SANITATION DISTRICT

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INTRODUCTORY SECTION

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Dedicated to Preserving the Napa River for Generations to Come

December 14, 2011

The Board of Directors
Napa Sanitation District

Directors:

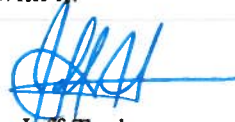
Management of the Napa Sanitation District (NSD or the District) has prepared a Comprehensive Annual Financial Report of NSD for the fiscal year ended June 30, 2011. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report contains management's representations concerning the finances of the District. Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, NSD management has established a comprehensive framework of internal controls. These controls are designed to protect the District's assets from loss, theft, or misuse, and to ensure sufficiently reliable information for the preparation of the District's basic financial statements in conformity with GAAP. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatement. As management, we assert that this financial report is complete and reliable in all material respects.

The District's basic financial statements have been audited by Gallina LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the District for the fiscal year ended June 30, 2011 were free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor rendered an unqualified opinion that the District's basic financial statements for the fiscal year ended June 30, 2011 are fairly represented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A profile of the District is presented in this Introductory Section. In the Financial Section, Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.


Tim Healy
General Manager


Jeff Tucker
Chief Financial Officer

Profile of the Napa Sanitation District

Mission

It is the mission of the Napa Sanitation District to collect, treat, beneficially reuse, and dispose of wastewater in an effective and economical manner that respects the environment, maintains the public's health and meets or exceeds all local, state and federal regulations.

Overview

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

The District provides wastewater collection, treatment and disposal services to the residents and businesses in the City of Napa and surrounding unincorporated areas of Napa County.

Wastewater was processed at the treatment facility north of Imola Avenue and west of Soscol Boulevard until 1998, when all treatment activities were moved to the Soscol Water Recycling Facility (SWRF) near the Napa County Airport. The Imola Avenue treatment facility

was demolished in 2002 after completion of the Napa County Flood Control District Project, which relocated the railroad tracks onto the District's Imola property. The District's Administration, Engineering and Collection System offices are still located at the Imola Avenue site.

Governance and Management

The Napa Sanitation District is an independent special district public agency governed by a five-member Board of Directors. Membership of the Board is established by state law and consists of the mayor of the City of Napa, a Napa City Councilperson, a Supervisor from Napa County, and two citizen appointees. One citizen is appointed by the Napa City Council, and the other by the Board of County Supervisors.

Public Services

There are over 36,000 connections within the District's approximately 20 square miles of service area. Through a network of approximately 250 miles of underground sewer pipelines, assisted by a system of three lift stations, the sewage makes its way to the SWRF for treatment.

The SWRF is a secondary and tertiary biological physical-chemical treatment facility that treats a mixture of domestic and industrial wastewater. The District has completed upgrades to the SWRF, which include primary treatment, activated sludge facilities, tertiary filtration, and sludge digestion and solids dewatering facilities.

The SWRF has a dry weather treatment design capacity of 15.4 million gallons per day (MGD). The wastewater is treated and discharged in various manners, depending on the source of the wastewater and the time of year.

The District's regulating body, the Regional Water Quality Control Board, permits discharge to the Napa River from November 1 through April 30 (the wet season period). The average discharge of treated water to the Napa River is approximately 14.7 MGD. The District provides full secondary treatment at its wastewater facility whenever discharging to the Napa River.

From May 1 through October 31 (the dry season period) discharge to the Napa River is prohibited and wastewater is either stored in stabilization ponds or treated to the tertiary level and beneficially reused for irrigation in industrial parks, golf courses, pasturelands and vineyards. High quality "Title 22 Unrestricted

Use" recycled water is provided to all recycled water users.

For more information on the District's wastewater treatment process please visit the website at www.NapaSanitationDistrict.com.

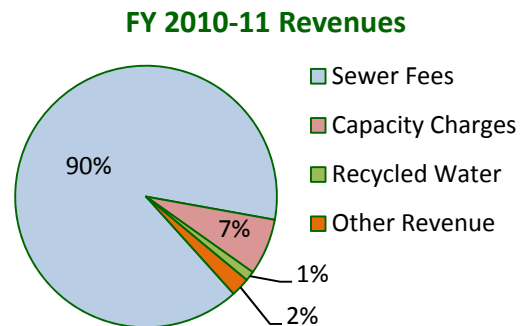
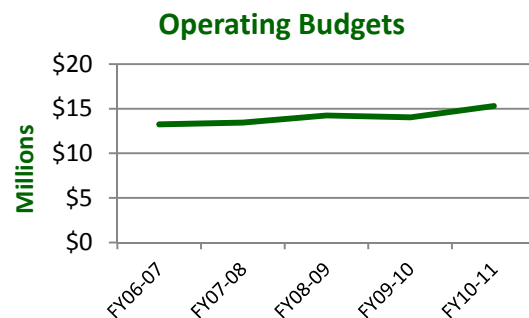
Financial Plan

The District's operating budget for FY 2010/11 was \$18.68 million; the FY 2011/12 increased by 4.2% to \$19.46 million. Excluding transfers to the capital fund, operating expenses in FY 2010/11 were \$15.3 million.

In addition to the operating budget, the District has a capital budget based upon new and replacement infrastructure needs. A \$5,485,601 capital budget was adopted at the beginning of FY 2010/11; this budget was increased in September 2010 by \$2,189,700 for projects carried forward from the 2009/10 fiscal year, and by \$5,247,000 in new capital projects, primarily the construction of a recycled water pipeline through the Napa State Hospital and design of that pipeline north through the MST area east of the City of Napa.

The District's 10-Year Capital Improvement Plan approved in FY 2010/11 includes more than 150 construction projects and capital equipment purchases totaling more than \$89 million over the next 10 years. The new plan adopted for FY 2012 includes the recommendations of the new Treatment Plant Master Plan and totals more than \$116 million.

As shown in the pie chart below, nearly all of the District's revenue comes from sewer fees. Other major revenue sources are capacity fees and the sale of recycled water. Other revenues include lease revenue, other fees and interest earnings.



User Rates and Charges

Sewer Service Charges

Sewer service charges are assessed on all residential properties equally through an annual assessment on the property taxes. Commercial

businesses are assessed sewer fees based on water consumption and strength factor and also collected through an annual assessment on the property taxes. Industrial users are assessed

sewer fees based on water consumption and strength factor and directly invoiced monthly.

All sewer use charges are based on an Equivalent Dwelling Unit (EDU). An EDU is equivalent to the combination of flow and strength of the wastewater that is discharged from a typical single family home.

In 2006, the District increased its sewer fees by 15% per year for three years, then by CPI thereafter, in response to a 10-year period where the District did not increase its sewer fees. The sewer use fee increased from \$274 per EDU in FY 2005/06 to \$416 per EDU in FY 2008/09. For the last two years, the fee has increased by inflation, 1.2% in FY 2009/10 and 1.8% in FY 2010/11.

For FY 2011/12 and the four following years, the Board of Directors has set the sewer use fee to increase by the Consumer Price Index. In FY 2011/12, the fee increase will be 1.5%.

Sewer Service Charges

	Charge per EDU	% Increase
FY97-FY06	\$274.00	
FY07	\$315.00	15.0%
FY08	\$362.00	15.0%
FY09	\$416.00	15.0%
FY10	\$421.00	1.2%
FY11	\$429.00	1.8%
FY12	\$435.44	1.5%

Capacity Charges

Capacity charges, sometimes referred to as “connection fees,” are fees paid for the issuance of a permit to connect to the District’s sewer system.

The capacity charge fee has not increased since 1995, when it was increased to \$5,660 per EDU. On September 15, 2010, the Board adopted a new fee schedule for capacity charges. The charge per EDU will increase from the existing \$5,660 to the following:

Capacity Charges

	Charge per EDU
1996 - 2011	\$5,660 per EDU
Jan. 1, 2012	Increase to \$6,000 per EDU
July 1, 2012	Increase to \$7,000 per EDU
July 1, 2013	Increase to \$8,300 per EDU
Every July 1 thereafter	Increase by an inflation factor

While the Sewer Service Charges pay for the day-to-day collection and treatment of wastewater, the Capacity Charges pay for the sewer and treatment plant capacity allocated to the user.

Factors Affecting Financial Condition

The information presented in the Financial Section is perhaps best understood in the context of the economic environment in which the District operates and strategic direction which the District has chosen to take, as discussed below.

Local Economy

Napa County is a rural community in California, north of the San Francisco and San Pablo bays, with just over 135,000 residents. The local economy is dominated by wine production and associated hotels, restaurants and other

businesses that support the wine industry and tourism. Located toward the southern end of the County, the District provides wastewater services to the City of Napa, the county’s largest city (pop. 77,000) and some surrounding unincorporated areas.

Over the past decade, the District grew due to growth in both the residential and commercial sectors. This growth slowed considerably with the slowdown in the economy starting in 2009. There is still land available for development within the service area of the District.

The State of California's financial condition has not significantly impacted the District, as the District has never had an *ad valorem* property tax nor is it dependent on state or federal financial support.

Strategic Planning

In May 2011, the Board of Directors updated its Strategic Plan, articulating the long-term goals, objectives and priorities of the District. Under each goal and objective, there are specific tasks identified with due dates. It is intended that the budgets and priorities of the District will incorporate these goals and objectives for the next two years.

Goal 1: Infrastructure Reliability

Objectives:

- 1A: Implement Treatment Plant Master Plan critical projects (pond aeration, recycled water equalization and filters, and influent pump station)
- 1B: Build new administration building and corporation yard
- 1C: Construct recycled water pipeline through NSH and complete design of MST pipeline
- 1D: Complete cost/benefit analysis of wet weather inflow/infiltration
- 1E: Complete SCADA master plan implementation
- 1F: Prepare impact analysis of Napa Pipe development

Goal 2: Financial Stability

Objectives:

- 2A: Update the Financial Master Plan, and incorporate the Ten-Year Financial Plan into the annual budget
- 2B: Complete a rate study for recycled water
- 2C: Establish administrative policy, operational guidelines and fee structure for FOG receiving station
- 2D: Inventory and perform condition assessments for the District's capital assets
- 2E: Develop non-rate, revenue-generating opportunities that fit within the District's mission, either on its own or through private/public investment

Goal 3: Operational Capability

Objectives:

- 3A: Prepare safety and security vulnerabilities study and public communications plan
- 3B: Develop policy and programs regarding the impact of wineries based on the 2009 Winery Study
- 3C: Convert the District's existing ordinances into code.
- 3D: Study the feasibility of turning more waste products into usable products (e.g., phosphorous capture, biosolids beneficial reuse)

Goal 4: Employee Development

Objectives:

- 4A: Implement action plan from Fall 2010 Employee Survey, and complete second employee survey in Fall 2011
- 4B: Develop a management succession plan and identify and train back-up staff for all mission-critical positions

Goal 5: Community Outreach and Communication

Objectives:

- 5A: Be proactive in developing partnerships with local businesses and other public agencies to achieve common goals
- 5B: Redesign the NSD website to include improved customer service information, rates and budget data, pollution prevention tips and BMPs, and a listing of District accomplishments.
- 5C: Develop and disseminate to stakeholders Best Management Practices (BMPs) for major pollutants of concern
- 5D: Develop a program of ongoing customer satisfaction surveys for plug-up calls and cleanout installations.

The Strategic Plan provides detail on these goals and specific objectives. On a quarterly basis, progress on these goals and objectives is reported to the Board of Directors.

Financial Policies

In May 2010, the District adopted a comprehensive set of Financial Policies to govern the overall financial management and health of the District. Policy areas include:

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

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

- **Balanced Budget** – the District maintains a balanced budget and does not use long-term debt to fund short-term or operational expenses.
- **Operating Reserves** – the District maintains an operating reserve at least equal to 15% of budgeted annual operating expenses, excluding debt service and transfers.
- **Liquidity** – the District maintains a liquidity reserve to ensure adequate cash is on hand to cover expenses in those months where expenses outpace revenues. The majority of the District’s revenues are received in December and in April through property assessments.
- **Revenues** – the District estimates revenues conservatively and does not use one-time or unpredictable revenues to fund ongoing expenses.
- **Maintenance** – the District protects its investment in its capital assets by budgeting for their adequate maintenance as a priority.
- **Debt** – the District will not issue debt unless it can pay the debt service and still meet its other obligations from current revenues.
- **Audit** – the District has its financial statements audited annually by an independent qualified third party in accordance with generally accepted auditing standards.
- **Financial Reporting** – the District reports on its financial position to the Board of Directors monthly and quarterly.

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

Debt Management

As a matter of policy, the District has a preference to use pay-as-you-go financing for its capital projects and only uses debt financing for improvements that it cannot readily finance from current revenues. Debt can only be used for major, non-recurring capital items, and the debt repayment timeline cannot exceed the expected useful life of the asset being financed.

Debt can only be issued when it has been shown that the District has the ability to pay all of its current obligations from current revenues and still have available 125% of the expected debt service amount to pay the debt service.

The District has four main debt obligations. Two are loans from the state under the Clean Water State Revolving Fund program. The first, issued in 2003 (\$901,376) was issued for replacement of pipes in the collection system. Interest and fees on this loan are fixed at 2.5%. The second was issued in 2008 (\$1,871,615) also for the replacement of pipes in the collection system. Both SRF loans were for 20 year terms.

The third obligation (Series 2009A COPs) is a 20-year Certificate of Participation through a 3-year renewable Letter of Credit with Wells Fargo Bank, and was used to refinance the 2001 WateReuse loan for the development of the District's recycled water system. In October 2009, this variable-rate loan was issued for \$9,120,000, with an initial interest rate of 1.55%. That rate has remained fairly steady since then.

The fourth obligation (Series 2009B COPs) is a 20-year Certificate of Participation sold as a fixed-rate bond through competitive bid, and has a true interest cost of about 3.6%. The \$26,675,000 in proceeds was used to refinance the 1998 COPs, originally issued to expand the capacity of the wastewater treatment plant.

There are two debt covenants that have a financial impact to the District. The first is a debt service coverage requirement. The District is

required by the bond covenant to maintain a debt service coverage ratio of at least 1.25. The second debt covenant with a financial impact to the District is specific to the Series 2009A COPs. The agreement with Wells Fargo Bank requires the District to maintain in cash \$3,700,000 on December 31 and June 30 of each fiscal year.

The 10-Year Capital Improvement Plan and the 10-Year Financial Plan assume that the District will issue debt in FY 13/14, generating approximately \$31.6 million in proceeds for use on capital projects.

Risk Management

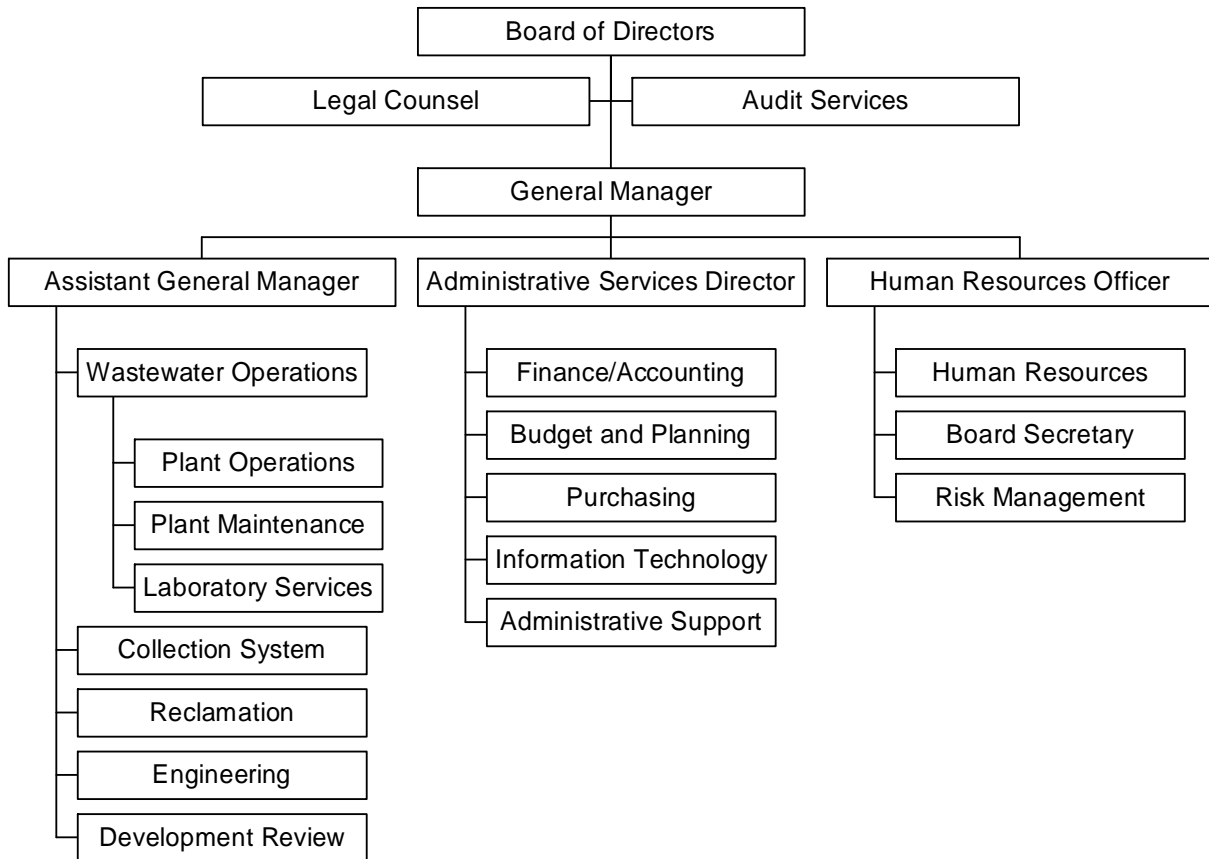
The District has joined with other public agencies in establishing a public risk entity pool operating as a common risk management and insurance program. Called the Special District Risk Management Authority, its purpose is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing costs. Membership in this organization provides comprehensive business coverage, including general property, general liability, auto and other liability insurance. The District purchases a separate insurance policy for pollution legal liability.

The District is also a member of the California Sanitation Risk Management Authority, which is a public risk sharing pool, for the purpose of providing workers compensation insurance to its employees.

In addition to maintaining appropriate insurance and pooling risk, the District employs various control techniques to minimize loss. These include routine employee safety meetings and training sessions, limiting the hiring of third party vendors to those with acceptable safety ratings or safety programs, the use of uniform language in contracts designed to limit or prevent liability exposure, and the development, training and practice of emergency plans.

Organizational Chart

Napa Sanitation District
Organizational Chart
(By Function)



Napa Sanitation District Fiscal Year 2010/11

Board of Directors

Jill Techel, Chair
Mark Luce, Vice-Chair
Mark van Gorder, Director
Charles Gravett, III, Director
Charles Shinnamon, Director
Keith Caldwell, Alternate Director
Peter Mott, Alternate Director

Executive Team

Tim Healy, General Manager/District Engineer
Jeff Tucker, Director of Administrative Services/Chief Financial Officer
Cheryl Schuh, Clerk to the Board/Human Resources Officer

Management Team

Wastewater Treatment Plant

Shar Maglione, Wastewater Treatment Plant Manager
Jeff Dutra, Operations Supervisor
Mark Egan, Plant Maintenance Supervisor
Mark Koekemoer, Laboratory Supervisor

Collection System

Todd Herrick, Collection System Manager

Water & Biosolids Reclamation

David Martin, Reclamation Systems Director

Engineering Services

Brian Thomas, Capital Program Manager

Administrative Services

Cyndi Bolden, Senior Accountant

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Napa Sanitation District
Napa, California

We have audited the accompanying basic financial statements of Napa Sanitation District (the District) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative data has been derived from the financial statements of the District for the year ended June 30, 2010 and, in our report dated November 23, 2010, we expressed an unqualified opinion on those financial statements.

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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Napa Sanitation District, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of the District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Napa Sanitation District
Napa, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of funding progress 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Gallina LLP

Roseville, California
December 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

This section of the District's Annual Financial Statements presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the District's Financial Statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded liabilities at the close of the 2010/2011 fiscal year by \$131,350,499(*net assets*). Of this amount, \$13,688,684 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$3,388,026 is restricted for debt service and capital projects and \$114,273,789 is invested in capital assets, net of related debt.
- Current year results reflect operating income of \$1,422,164, an increase of \$1,105,170 from prior year. Operating expenses decreased by \$272,523 while operating revenue increased by \$832,647.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's Basic Financial Statements. The Statement of Net Assets (pages 9-10), the Statement of Revenues, Expenses, and Changes in Net Assets (page 11), and the Statement of Cash Flows (pages 12-13) provide information about the activities of the District. The financial statements also include various footnote disclosures, which further describe the District activities.

Napa Sanitation District Condensed Statement of Net Assets

	2011	2010
Assets		
Current and other assets	\$ 23,238,879	\$ 23,163,544
Capital assets	148,192,194	147,829,060
Total Assets	<u>171,431,073</u>	<u>170,992,604</u>
Liabilities		
Current and other liabilities	4,249,790	3,440,747
Long term liabilities	35,830,784	37,744,490
Total Liabilities	<u>40,080,574</u>	<u>41,185,237</u>
Net Assets		
Invested in capital assets, net	114,273,789	112,467,360
Restricted	3,388,026	3,013,910
Unrestricted	13,688,684	14,326,097
Total Net Assets	<u>\$ 131,350,499</u>	<u>\$ 129,807,367</u>

NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

During the fiscal year ended June 30, 2011, net assets increased by \$1,543,132 mostly attributable to the addition of capital projects and assets and increased collection of capacity charges ("connection fees").

The District reports positive balances in all three components of net assets. Net assets invested in capital assets, net of related debt increased as a result of debt repayments and current year capital asset additions.

Napa Sanitation District Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010	Change	% Change
Operating revenues				
Sewer Charges	\$ 17,173,259	\$ 17,089,263	\$ 83,996	0.49%
Connection fees	1,339,102	591,859	747,243	126.25%
Other charges for services	531,239	529,831	1,408	0.27%
Total operating revenues	<u>19,043,600</u>	<u>18,210,953</u>	<u>832,647</u>	<u>4.57%</u>
Operating expenses				
Wastewater collection, treatment and reclamation	3,777,420	3,956,262	(178,842)	-4.52%
Depreciation	6,653,223	6,519,052	134,171	2.06%
Administration and general	7,190,793	7,418,645	(227,852)	-3.07%
Total operating expenses	<u>17,621,436</u>	<u>17,893,959</u>	<u>(272,523)</u>	<u>-1.52%</u>
Operating Income (Loss)	<u>1,422,164</u>	<u>316,994</u>	<u>1,105,170</u>	<u>348.64%</u>
Non-Operating Revenue (Expense)				
Interest income	144,452	183,127	(38,675)	-21.12%
Interest expense	(1,127,337)	(1,819,555)	692,218	-38.04%
Gain (loss) on asset disposal	96,063	(61,385)	157,448	-256.49%
Other revenues	304,912	409,366	(104,454)	-25.52%
Total non-operating revenue (expense)	<u>(581,910)</u>	<u>(1,288,447)</u>	<u>706,537</u>	<u>-54.84%</u>
Net income (loss) before capital contributions	840,254	(971,453)	1,811,707	-186.49%
Capital grants and contributions	702,878	97,715	605,163	619.31%
Change in net assets	1,543,132	(873,738)	2,416,870	-276.61%
Net Assets, Beginning of Year	<u>129,807,367</u>	<u>130,681,105</u>	<u>(873,738)</u>	<u>-0.67%</u>
Net Assets - End of Year	<u>\$ 131,350,499</u>	<u>\$ 129,807,367</u>	<u>\$ 1,543,132</u>	<u>1.19%</u>

NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

For the fiscal year ended June 30, 2011, operating revenue increased by \$832,647 while operating expenses decreased by \$272,523. The increase in operating revenue is due primarily to higher capacity charges (\$747,243). The increase in sewer service charges (\$83,996) accounts for the majority of the remaining increase. The operating expense decreases were due mostly to position vacancies and lower chemical usage. In May 2011, the Board of Directors authorized a 1.5% increase in the Sewer Service Charge for FY 2011/12 and set the rate to increase with inflation annually for the following four fiscal years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has a ten-year capital improvement program and publishes a capital budget annually in conjunction with the District's budget process. The capital program is reviewed and updated on an annual basis, with amendments made during the fiscal year, if necessary.

As of June 30, 2011, the District's investment in capital assets amounted to \$148,192,194 (net of accumulated depreciation), an increase of \$363,134. This investment in capital assets includes land, building and improvements, equipment, construction in progress, donated sewer lines and other contributed assets.

The table below provides a comparison of the District's capital assets for the current and prior years.

Napa Sanitation District Capital Assets, Net of Accumulated Depreciation

	2011	2010	\$ Change
Land	\$ 7,436,649	\$ 7,436,649	\$ --
Buildings and improvements	107,180,202	106,767,884	412,318
Equipment	5,517,305	4,633,439	883,866
Construction in progress	7,189,338	7,054,197	135,141
Donated sewer lines and other contributed assets	20,868,700	21,936,891	(1,068,191)
	<u>\$ 148,192,194</u>	<u>\$ 147,829,060</u>	<u>\$ 363,134</u>

Major capital projects for the fiscal year include the following:

- Completion of the Wastewater Treatment Plant Master Plan
- Napa State Hospital Recycled Water Pipeline Construction
- MST Recycled Water Pipeline Design
- Upper Alphabet Street/Stonecrest Pipeline Rehabilitation
- Replacement of Significant Maintenance Vehicles in the Collection System

NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

For additional information on capital assets, see Note 3 on page 21.

Long Term Obligations

At June 30, 2011, the District's total long-term obligations were \$37,512,616, compared to \$39,414,043 in the prior year. This amount was comprised of \$353,339 of compensated absences, other post-employment benefits of \$482,292, and long-term debt of \$36,676,985.

For additional information on long-term debt, see Note 4 on pages 22 and 23.

FUTURE PROJECTIONS

Revenue Projections

The District has a stable revenue foundation, with over 70% of the District's revenues in FY 2011/12 coming from sewer service charges collected as assessments on property tax bills. Other significant revenue sources include capacity charges, recycled water sales, wastehauler fees, land leases and interest earnings. Two significant revenues also anticipated in FY 2011/12 include the sale for surplus property and capital grant proceeds.

Sewer service charges are forecasted for the next year based on the actual number of Equivalent Dwelling Units (EDUs) and the sewer service charge fee of \$435.44 per EDU. The total budgeted revenue is adjusted by a small percentage to account for delinquency in property tax payments. The top ten sewer service customers represent approximately 9% of revenue. This distributed revenue source results in a more stable revenue stream and is less susceptible to economic fluctuations than other revenue sources. In May 2011, the Board of Directors conducted public hearings pursuant to California Proposition 218 to increase the sewer service charge by 1.5% in FY 2011/12 and to set rates for the following four years based on the increases in the Consumer Price Index.

Capacity charges are forecasted for the next year based on the cost per EDU and an assumed growth rate of 0.5%, or 162 EDUs being developed during the fiscal year, after making an adjustment down for a significant project that paid fees in FY 2010/11. The capacity charge is scheduled to increase to \$6,000 per EDU (up from \$5,660) on January 1, 2012, then increase again to \$7,000 per EDU on July 1, 2012.

Recycled water fees are forecasted based on historical use, adjusted for increases or decreases in anticipated use. The current cost is \$0.91 per 1,000 gallons, with an increase anticipated in January 2012 based on an inflation factor. This revenue source can vary by 10%-20% or more depending on summer weather patterns. In December 2011, it is anticipated that the Board will establish a rate setting methodology for recycled water that will be used in future years to set recycled water rates.

NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

Wastehauler fee revenues are forecasted based on a three-year average of volume times the current fee for the specific type of waste. Fees increase at the same inflation factor used for sewer service charges.

Land leases generate revenue from several parcels of land. The lease contracts have inflation factors identified within them. The revenue forecast is set based on these contracts. One lease was amended in FY 2010/11, allowing the lease payments to be deferred until July 30, 2013, at which time payment comes due for the deferred amount, plus interest. Payment is secured by a Deed of Trust on land adjacent to the District's land holdings.

Interest Earnings is the revenue the District receives on idle cash and reserves that it maintains in its accounts. Cash is invested by the County of Napa on the District's behalf and posted to the District's funds quarterly. For FY 2011/2012, the District has assumed an interest earnings rate of 1.00% at the start of the fiscal year and increasing to 1.25% by the end of the year.

Capital Grants and Contributions are anticipated to increase as the District invoices the U.S. Bureau of Reclamation and Napa County for reimbursements to design and construct recycled water pipeline projects and associated plant improvements.

FY 2011/12 District revenues from all sources, excluding internal transfers, are expected to be \$24,848,300. When compared to FY 2010/11 actual revenues, the FY 2011/12 revenues are projected higher by over \$5 million. Specifically, sewer service charges are \$560,361 higher than FY 2010/11, and capital contributions are up \$901,497. The FY 2011/12 budget also includes \$2.9 million for the sale of surplus land that is currently under negotiation. Various increases in other revenue categories constitute the remaining changes in the revenue projections in comparison to FY 2010/11 actual revenues.

Expense Projections

Salary and benefit expenses, including salary and wages of employees, overtime, payroll taxes such as Medicare, health insurance benefits, retirement benefits, and other post employment benefits (OPEB), are projected based on the Memoranda of Understanding (MOU) between the District and its various bargaining units. These MOUs have established minimum and maximum increases for some expenses, and negotiated the level of District responsibility for others. The budgeted salary and benefit expenses are anticipated to increase 3.1% from budgeted FY 2010/11 expenses, to \$7,631,108.

Supplies and services budget includes the purchase of supplies and equipment to maintain and operate the various systems in the District. It also includes a number of service contracts and professional contracts. FY 2011/12 supplies and services are budgeted to decrease 4.8% from FY 2010/11, to \$5,087,520. Decreases are primarily due to anticipated lower chemical usage (17% decrease) and slightly lower electricity usage (2% decrease).

NAPA SANITATION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2011

Debt service expenses are projected based on actual principal and interest payment requirements. Interest for variable rate debt is projected to be approximately 1.75% higher than the current rate, to ensure adequate resources and budgetary authority for this expense.

Overall, operating expenses for the District in FY 2011/12 are expected to be \$15,494,226 (excluding transfers between funds). The capital budget (excluding transfers between funds) is set at \$8,048,768 for FY 2011/12, although it is anticipated that the capital budget will increase due to unfinished projects in FY 2010/11 being carried forward into FY 2011/12.

Financial Status

The financial condition of the District remains sound but is impacted by the current downturn in the local development sector of our economy. The reduction of revenue to the District, as a result of reduced demand for new connections to the system, will require that continued emphasis be placed on monitoring the short term cash flows and the long term Capital Improvement Plan by District Management and the District Board.

The cost of employee benefits continues to rise for the District. Specifically, health benefits, which adversely impact current employee and retiree costs, are a major contributor to escalating costs in the area of salaries and benefits. Energy and chemical rates in general will continue to rise and as such will require regular monitoring by staff, but the District is also taking actions to decrease usage of these commodities. One capital project (CIP #3008 FOG Receiving Station), anticipated to be completed in June 2012, will help the financial condition of the District by generating revenue from FOG (fats, oil and grease) haulers while also reducing purchased electricity demand as the District converts the FOG to electricity for plant use.

With the District's decision to fund its OPEB ("Other Post Employment Benefits") liability, the District has taken another step to help improve the long-term financial health of the District.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with interest in them. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Napa Sanitation District, 935 Hartle Court, P.O. Box 2480, Napa, California 94558.

BASIC FINANCIAL STATEMENTS

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NAPA SANITATION DISTRICT

Statement of Net Assets June 30, 2011 (with comparative data for 2010)

ASSETS

Current Assets:	<u>2011</u>	<u>2010</u>
Cash in County treasury	\$ 17,649,660	\$ 18,414,206
Imprest cash	5,521	2,141
Assessments receivable	328,192	414,008
Accounts receivable (net)	990,477	366,111
Other receivables	580	2,295
Inventory	90,877	140,654
Prepaid expenses	191,265	173,929
Total Current Assets	<u>19,256,572</u>	<u>19,513,344</u>
Restricted Cash and Investments:		
Toilet retrofit program	55	9,052
With fiscal agent	2,758,580	2,785,940
Plant expansion account	629,446	227,970
Total Restricted Cash and Investments	<u>3,388,081</u>	<u>3,022,962</u>
Other Assets:		
Deferred charges	594,226	627,238
Capital Assets:		
Nondepreciable	14,625,987	14,490,846
Depreciable, net	133,566,207	133,338,214
Total Capital Assets	<u>148,192,194</u>	<u>147,829,060</u>
Total Assets	<u>\$ 171,431,073</u>	<u>\$ 170,992,604</u>

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

NAPA SANITATION DISTRICT

Statement of Net Assets (continued)

June 30, 2011

LIABILITIES

	2011	2010
Current Liabilities:		
Accounts payable	\$ 1,721,166	\$ 925,380
Salaries and benefits payable	297,627	283,753
Deferred revenue	113,084	125,517
Deposits from others	40,122	29,042
Current portion of compensated absences	199,913	224,954
Current portion of long-term debt	1,481,919	1,444,599
	<hr/>	<hr/>
Total Current Liabilities	3,853,831	3,033,245
	<hr/>	<hr/>
Current Liabilities Payable from Restricted Assets:		
Interest payable	395,959	407,502
	<hr/>	<hr/>
Non-Current Liabilities:		
Liability for compensated absences	153,426	174,103
Other post employment benefit (OPEB) obligation	482,292	867,346
Long-term debt, including unamortized original issue premium	35,195,066	36,703,041
	<hr/>	<hr/>
Total Non-Current Liabilities	35,830,784	37,744,490
	<hr/>	<hr/>
Total Liabilities	40,080,574	41,185,237
	<hr/>	<hr/>

NET ASSETS

Invested in capital assets, net of related debt	114,273,789	112,467,360
Restricted for debt service and construction projects	3,388,026	3,013,910
Unrestricted	13,688,684	14,326,097
	<hr/>	<hr/>
Total Net Assets	131,350,499	129,807,367
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 171,431,073	\$ 170,992,604
	<hr/>	<hr/>

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

NAPA SANITATION DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2011

Operating Revenues:	<u>2011</u>	<u>2010</u>
Sewer charges	\$ 17,173,259	\$ 17,089,263
Connection fees	1,339,102	591,859
Other charges for services	531,239	529,831
Total Operating Revenues	<u>19,043,600</u>	<u>18,210,953</u>
Operating Expenses:		
Insurance	199,100	196,330
Salaries and benefits	6,421,686	6,333,282
Materials, supplies and repairs	1,321,199	1,288,250
General and administrative	407,943	415,442
Contractual services	1,751,007	1,823,240
Utilities	834,265	924,940
Depreciation	6,653,223	6,519,052
Amortization	33,013	393,423
Total Operating Expenses	<u>17,621,436</u>	<u>17,893,959</u>
Operating Income	<u>1,422,164</u>	<u>316,994</u>
Non-Operating Revenue (Expense):		
Lease income	168,403	301,069
Taxes	(23,607)	(24,616)
Gain (loss) on disposal of assets	96,063	(61,385)
Interest income	144,452	183,127
Interest expense	(1,127,337)	(1,819,555)
Other revenue (expense)	160,116	132,913
Total Non-Operating Revenues (Expenses)	<u>(581,910)</u>	<u>(1,288,447)</u>
Income (Loss) Before Capital Contributions	840,254	(971,453)
Capital Grants and Contributions	<u>702,878</u>	<u>97,715</u>
Change in Net Assets	1,543,132	(873,738)
Total Net Assets - Beginning of Year	<u>129,807,367</u>	<u>130,681,105</u>
Total Net Assets - End of Year	<u>\$ 131,350,499</u>	<u>\$ 129,807,367</u>

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

NAPA SANITATION DISTRICT

Statement of Cash Flows For the Year Ended June 30, 2011

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 18,505,412	\$ 18,391,479
Payments to suppliers	(3,685,287)	(4,723,553)
Payments to employees	(6,838,584)	(5,827,761)
Net cash flows provided (used) for operating activities	<u>7,981,541</u>	<u>7,840,165</u>
Cash Flows from Noncapital Financing Activities:		
Tax expense	(23,607)	(24,616)
Other revenue	160,116	132,913
Lease income	168,403	301,069
Net cash flows provided (used) for noncapital financing activities	<u>304,912</u>	<u>409,366</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital related debt	--	37,042,752
Payments of principal on long-term debt	(1,470,655)	(36,941,439)
Proceeds from sale of capital assets	98,102	19,088
Purchase of capital assets	(7,009,522)	(4,208,081)
Capital contributions	694,003	--
Interest paid	(1,138,880)	(2,381,450)
Net cash provided (used) for capital and related financing activities	<u>(8,826,952)</u>	<u>(6,469,130)</u>
Cash Flows from Investing Activities:		
Interest Income	144,452	183,127
Net cash flows provided (used) for investing activities	<u>144,452</u>	<u>183,127</u>
Net increase (decrease) in cash and cash equivalents	(396,047)	1,963,528
Cash and cash equivalents, beginning of the year	<u>21,439,309</u>	<u>19,475,781</u>
Cash and cash equivalents, end of the year	<u><u>\$21,043,262</u></u>	<u><u>\$21,439,309</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and cash equivalents in current assets	\$ 17,655,181	\$ 18,416,347
Cash and cash equivalents in restricted assets	<u>3,388,081</u>	<u>3,022,962</u>
Total Cash and Cash Equivalents	<u><u>\$21,043,262</u></u>	<u><u>\$21,439,309</u></u>

(continued)

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

NAPA SANITATION DISTRICT

Statement of Cash Flows (continued)

For the Year Ended June 30, 2011

Reconciliation of Operating Income (Loss) to

Net Cash Provided (Used) by Operating Activities:

Operating income (loss)	<u>\$ 1,422,164</u>	<u>\$ 316,994</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,653,223	6,519,052
Amortization	33,013	393,423
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(538,550)	21,317
(Increase) decrease in other receivables	1,715	4,650
(Increase) decrease in inventory	49,777	2,163
(Increase) decrease in prepaid expenses	(17,336)	(172,226)
Increase (decrease) in accounts payable	795,786	94,712
Increase (decrease) in salaries and benefits payable	13,874	32,451
Increase (decrease) in deferred revenue	(12,433)	125,517
Increase (decrease) in deposits from others	11,080	29,042
Increase (decrease) in other post employment benefits liability	(385,054)	452,958
Increase (decrease) in compensated absences payable	<u>(45,718)</u>	<u>20,112</u>
 Total Adjustments to Operating Income	 <u>6,559,377</u>	 <u>7,523,171</u>
 Net cash provided (used) by operating activities	 <u><u>\$ 7,981,541</u></u>	 <u><u>\$ 7,840,165</u></u>
 Noncash, investing, capital and financing activities:		
Contribution of capital assets	<u><u>\$ 8,875</u></u>	<u><u>\$ 97,715</u></u>

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

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NOTES TO BASIC FINANCIAL STATEMENTS

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the District, and other necessary disclosure of pertinent matters relating to the financial position of the District. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Napa Sanitation District (District) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting Entity

The Napa Sanitation District (District) was organized as a County Sanitation District under the California Health and Safety Code in November 1945 to provide the necessary sewerage service to the City of Napa as well as adjacent areas of Napa County. The District is responsible for wastewater collection, treatment and disposal/reuse within most of the city limits of the City of Napa as well as adjacent areas of Napa County.

The District is not a component unit of the County of Napa. The District is legally separate and fiscally independent of the County of Napa. The District includes all activities (operations of its administrative staff and District officers) considered to be a part of the District. The District has one blended component unit, the Napa Sanitation District Public Financing Corporation (Financing Corporation), which has been included in the financial statements. The District has determined that no other agency meets the criteria, developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Unites – an amendment of GASB Statement No. 14*, to be included as a component unit in the financial statements. In addition, the District is not aware of any entity that would be financially accountable for the District that would result in the District being considered a component unit of that entity.

B. Basis of Presentation and Method of Accounting

The District accounts for its activities as a single enterprise fund, and the financial statements are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

C. Cash, Investments and Equivalents

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The District's cash is pooled with the County of Napa's cash for investment purposes. It has been determined that the fair value of the County's cash in total compared to cost is not materially different, so that no adjustment has been reported on these financial statements.

Cash, short-term investments and restricted investments are stated at cost, which approximates current fair value.

For purposes of the statement of cash flows, the District considers all cash and investments with original maturities of three months or less when purchased and their equity in the County Treasurer's Investment Pool, which is payable on demand, as cash and cash equivalents.

D. Receivables

Receivables consist mostly of fees charged for sewer services and reclaimed water sales. Assessment receivables represent amounts that were on the County's property tax bills. Accounts receivable represents amounts billed directly by the District. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

E. Inventory

Inventories consist of operating materials and supplies held for consumption, and are recognized as an expense at the time inventory is used. The District carries inventory at the lower of cost or market, on a first in, first out (FIFO) basis.

F. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

G. Deferred Charges

Deferred charges represent the cost of issuance of the Certificates of Participation Series 2009A and 2009B.

H. Restricted Assets

Amounts shown as restricted assets have been restricted by either bonds, by law or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Restricted assets include water and sewer connection fees. The resolution establishing the authority for water and sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets.

I. Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The District's policy is to include in construction-in-progress capitalized interest costs of related borrowings, net of interest earned on unspent proceeds of the related borrowings, as well as capitalized amortization of deferred charges and original issue discount.

The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of plant and equipment as follows:

Useful Life <u>(Years)</u>	
Buildings and improvements	5-50
Equipment	5-50
Donated sewer lines and other contributed assets	50

J. Compensated Absences

Earned vacation may be accumulated by all personnel up to a maximum of twice their annual vacation leave on June 30th. Sick leave is accumulated without restriction as to maximum hours. District employees may not receive compensation for accumulated sick leave upon termination

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements June 30, 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

of employment, but can convert up to 48 hours of sick leave to personal leave after accumulated sick leave exceeds 500 hours. Any unused personal leave is forfeited on June 30th for non-management employees.

Management employees can accumulate up to a maximum of 96 hours by June 30th. Earned management leave time may be accumulated by management employees up to a maximum of twice their annual management leave time on June 30th.

The total estimated contingent liability for vested compensated absences at June 30, 2011 was \$353,339. The current portion of the liability was determined as 100% of earned compensated time and personal leave, and 50% of earned vacation and management leave.

K. Net Assets

The District's financial statements utilize a net assets presentation. Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. For the District, this category represents restrictions for debt service and construction projects.
- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

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

L. Use of Estimates

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Amortization

Deferred charges and the original issue premium related to the Certificates of Participation Series 2009B are being amortized using the straight-line method over 20 years.

2. CASH AND INVESTMENTS

Cash and investments shown in the statement of net assets represents the District's share of the County of Napa's cash and investment pool and restricted cash held with fiscal agents. The District voluntarily participates in the County's cash and investment pool. Interest earnings from this pool are transferred to the District on a quarterly basis based on the District's average daily balance. The County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County of Napa's comprehensive annual financial report and may be obtained by contacting the County Auditor-Controller's Office at 1195 Third Street, Room B-10, Napa, California 94559.

The District has adopted Napa County's investment policy.

At June 30, 2011, the District also had a \$55 bank balance on deposit with a financial institution. This amount is fully insured by federal depository insurance.

At June 30, 2011, total cash and investments held by the District were as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash held in County treasury	\$ 17,649,660	\$ 629,446	\$ 18,279,106
Cash in bank	--	55	55
Petty cash	5,521	--	5,521
Investments with fiscal agent	--	2,758,580	2,758,580
Total	<u>\$ 17,655,181</u>	<u>\$ 3,388,081</u>	<u>\$ 21,043,262</u>

Restricted cash is comprised of the following amounts: \$629,446 is for plant expansion, \$2,758,580 is restricted for debt service and the remaining \$55 is for the toilet retrofit program.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements June 30, 2011

2. CASH AND INVESTMENTS (continued)

Cash with fiscal agent investments were as follows:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	Weighted Average Maturity (Years)
Cash with Fiscal Agent						
Federated Mutual Funds	Variable	On Demand	\$ 2,758,580	\$ 2,758,580	\$ 2,758,580	--

Required disclosures for the District's deposit and investment risks for the cash held in the County Treasury at June 30, 2011, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	See disclosure above

3. CAPITAL ASSETS

Changes in the District's capital assets and accumulated depreciation for the year ended June 30, 2011 is summarized as follows:

	Balance June 30, 2010	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 7,436,649	\$ --	\$ --	\$ --	\$ 7,436,649
Construction in progress	7,054,197	3,169,967	(2,039)	(3,032,787)	7,189,338
Total capital assets, not being depreciated	<u>14,490,846</u>	<u>3,169,967</u>	<u>(2,039)</u>	<u>(3,032,787)</u>	<u>14,625,987</u>
Capital assets, being depreciated:					
Structures and improvements	148,244,806	2,710,005	--	2,773,979	153,728,790
Vehicles and equipment	10,082,826	1,129,549	(539,598)	258,808	10,931,585
Donated assets	49,489,199	8,875	--	--	49,498,074
Total capital assets, being depreciated	<u>207,816,831</u>	<u>3,848,429</u>	<u>(539,598)</u>	<u>3,032,787</u>	<u>214,158,449</u>
Less accumulated depreciation for:					
Structures and improvements	(41,476,922)	(5,071,666)	--	--	(46,548,588)
Vehicles and equipment	(5,449,387)	(504,491)	539,598	--	(5,414,280)
Donated assets	(27,552,308)	(1,077,066)	--	--	(28,629,374)
Total accumulated depreciation	<u>(74,478,617)</u>	<u>(6,653,223)</u>	<u>539,598</u>	<u>--</u>	<u>(80,592,242)</u>
Total capital assets, being depreciated net	<u>133,338,214</u>	<u>(2,804,794)</u>	<u>--</u>	<u>3,032,787</u>	<u>133,566,207</u>
Total capital assets, net	<u>\$ 147,829,060</u>	<u>\$ 365,173</u>	<u>\$ (2,039)</u>	<u>\$ --</u>	<u>\$ 148,192,194</u>

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements June 30, 2011

4. LONG-TERM DEBT

Individual issues of Bonds, Notes and Certificates of Participation outstanding at June 30, 2011:

	<u>Maturity</u>	<u>Interest Rates^{a)}</u>	<u>Annual Principal Installments</u>	<u>Original Issue Date</u>	<u>Original Issue</u>	<u>Outstanding 6/30/2011</u>
2009 Certificates of Participation Series A Purpose: Wastewater Project	2028	variable	\$290,000-\$630,000	10/15/2009	\$ 9,120,000	\$ 8,500,000
2009 Certificates of Participation Series B Purpose: Wastewater Project	2028	3.00%-5.00%	\$1,005,000-\$1,900,000	10/15/2009	\$ 26,675,000	\$ 25,670,000
State Revolving Fund – SRF Purpose: Summit Avenue/Ora Drive	2022	2.50%	\$34,421-\$58,777	12/13/2003	\$ 901,376	\$ 617,995
State Revolving Fund – SRF Purpose: East Spring Street/ Montecito Boulevard Sewer Improvement Project Phase I	2029	1.87%	\$58,145-\$81,096	4/1/2009	\$ 1,376,804	\$ 1,253,240
State Revolving Fund – SRF Purpose: East Spring Street/ Montecito Boulevard Sewer Improvement Project Phase II	2029	1.85%	\$7,750-\$10,773	4/1/2009	\$ 182,869	\$ 166,737

a) Imputed rates are used for the State Revolving Fund Loans for the East Spring Street Montecito Boulevard Sewer Improvement Project

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

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
State Revolving Fund Loan Series 2009A COP	\$ 2,147,571	\$ --	\$ (109,599)	\$ 2,037,972	\$ 111,919
Series 2009B COP	8,830,000	--	(330,000)	8,500,000	340,000
Series 2009B COP	26,675,000	--	(1,005,000)	25,670,000	1,030,000
Add: Unamortized Original Issue Premium	495,069	--	(26,056)	469,013	--
Compensated Absences	399,057	373,155	(418,873)	353,339	199,913
Other Post-employment Benefits	867,346	--	(385,054)	482,292	--
	<u>\$ 39,414,043</u>	<u>\$ 373,155</u>	<u>\$ (2,274,582)</u>	<u>\$ 37,512,616</u>	<u>\$ 1,681,832</u>

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

4. LONG-TERM DEBT (continued)

As of June 30, 2011, annual debt service requirements to maturity are as follows:

Year Ending June 30:	Business-type Activities			
	SRF Loan		Certificates of Participation	
	Principal	Interest	Principal	Interest ¹
2012	\$ 111,919	\$ 41,908	\$ 1,370,000	\$ 1,226,721
2013	114,290	39,537	1,420,000	1,179,577
2014	116,712	37,116	1,475,000	1,122,864
2015	119,186	34,641	1,540,000	1,052,756
2016	121,714	32,113	1,615,000	979,254
2017-2021	648,449	120,687	8,920,000	4,019,285
2022-2026	535,106	53,291	10,525,000	2,369,688
2027-2029	270,596	9,947	7,305,000	406,413
	<u>\$ 2,037,972</u>	<u>\$ 369,240</u>	<u>\$ 34,170,000</u>	<u>\$ 12,356,558</u>

¹ Series 2009A (variable rate) uses an estimated interest rate of 3.35% which includes a 1.5 % letter of credit fee and administrative fees.

5. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Napa Sanitation District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employees' retirement system that acts as a common investment and administrative agent for participating public entities with the State of California. Copies of PERS annual financial report may be obtained from their Executive Office – 400 P Street, Sacramento, California 95814.

B. Funding Policy

The District makes the contributions required of District employees on their behalf and for their account. The rates are set by statute and therefore generally remain unchanged from year to year. The present actuarially determined rates of annual covered payment are as follows:

<u>Category</u>	<u>Member Rates as a Percentage of Wages</u>
Local miscellaneous members	8%

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

5. DEFINED BENEFIT PENSION PLAN (continued)

B. Funding Policy (continued)

State statutes establish the contribution requirements of the plan members and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For the fiscal year ended June 30, 2011, the District's annual pension cost was \$1,309,697 and the District actually contributed \$1,309,697. The required contribution for the fiscal year ended June 30, 2011 was determined as part of the January 30, 2008 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%; and (c) a 3.25% increase overall payroll. Both (a) and (b) included an inflation component of 3.00%.

The actuarial value of the District's assets was determined using a technique that minimizes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of the investment gains and/or losses. The District's excess assets are being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	1,258,088	100%	--
6/30/10	1,271,308	100%	--
6/30/11	1,309,697	100%	--

C. Deferred Compensation Plan

All permanent employees of the District are eligible to participate in a District sponsored deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested on behalf of the employees through an administrator in various instruments including mutual funds, money market funds, and others.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

5. DEFINED BENEFIT PENSION PLAN (continued)

C. Deferred Compensation Plan (continued)

Prior to 1999, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts and all income attributable to those amounts were (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the Plan), and subject to the claims of the District's general creditors.

Due to a change in Federal law concerning deferred compensation plans, the Board of Directors amended the Plan. In accordance with the new law, the District set up a trust to hold assets and earnings of the deferred compensation plan for the exclusive benefit of the participants.

Government Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* requires governments to report Section 457 plans in the financial statements if the assets are held by a government unit in a trustee capacity or as an agent for individuals. Currently, the District has minimal administrative involvement, does not perform the investing function for the plan and, therefore, is not considered to have fiduciary responsibility for the plan or hold the plan in a trustee capacity.

The County of Napa Auditor-Controller's office prepares the District's payroll and remits all required deposits to the third-party administrators.

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description: The District offers medical, vision and life insurance premium benefits to eligible retirees. The contribution requirements of the plan members and the District are established and may be amended by the District

Under the current health plan, the District pays for coverage of the retiree plus an eligible spouse. To be eligible, the retiree must retire directly from the District at age 50 or later and have a minimum of five years of service. Employees that are hired on and after September 1, 2004 have reduced benefits. Employees hired after September 4, 2009 have reduced pensions so they are predicted to retire later.

As of June 30, 2011, the District had 37 retirees receiving benefits at a cost of approximately \$286,466.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation: The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The District’s ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the Retiree Healthcare Plan:

For fiscal year 2010/2011, the District contributed \$914,121 or 172.78%, of the actuarially required contributions, to the retiree healthcare program. Of this contribution, \$385,053 was contributed as an amount to make up for the prior year underpayment, while \$286,466 is attributable to health benefits paid to retirees outside of CERBT, and the remaining \$242,602 was current year cash contributions made towards the annual required contribution.

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$ 529,068
Interest on net OPEB obligation	--
Annual OPEB cost	529,068
Contributions made	914,121
Change in net OPEB obligation (asset)	(385,053)
Net OPEB obligation (asset) beginning of year	867,345
Net OPEB obligation (asset) end of year	\$ 482,292

The District’s Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above), and the Net OPEB Obligation for the past three fiscal years are shown below:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2009	\$ 651,800	\$ 237,412	36.42%	\$ 414,388
6/30/2010	\$ 693,700	\$ 240,743	34.70%	\$ 867,345
6/30/2011	\$ 529,068	\$ 914,121	172.78%	\$ 482,292

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of January 1, 2010, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$4,844,800
Actuarial value of plan assets	--
Unfunded actuarial accrued liability (UAAL)	<u>\$4,844,800</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll	4,050,300
UAAL as percentage of covered payroll	119.62%

The District changed its policy of "pay-as-you-go" for retiree health benefits and signed an agreement with CalPERS to participate in the California Employers' Retiree Benefit Trust (CERBT) program during fiscal year 2010/11. The Annual OPEB Cost for FY 2010/11 is significantly lower (\$529,068) when compared to the prior year (\$693,700). The Annual OPEB Cost for fiscal year 2009/10 was calculated based on the scenario that the District did not fund the Annual Required Contribution (ARC). The calculation for fiscal year 2010/11 was based on the scenario that the District fully funded the ARC.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements
June 30, 2011

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Funded Status and Funding Progress (continued)

In the January 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return, an inflation rate of 3.00% per year, an increase in covered payroll at the rate of 3.25% per year with projected medical premium increases for 2012 of 8%. The OPEB plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2011, was 28 years.

7. RELATED PARTY TRANSACTIONS

Pursuant to an agreement between the County of Napa and the District, the County provides Management Information Services and Accounting Services to the District. During the year ended June 30, 2011, the District paid the County the following amounts for these services:

Information Technology Services	\$	273,990
Accounting Services		32,252

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District joined together with other entities to form the Special District Risk Management Authority (SDRMA), a public risk entity pool currently operating as a common risk management and insurance program for 414 member entities. The purpose of SDRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. A Board composed of one representative from each member agency governs SDRMA. The Board controls the operations of SDRMA including selection of management and approval for operating budgets, independent of any influence by member entities. A copy of the audit report may be obtained from SDRMA at 1112 I Street, Suite 300, Sacramento, California 95814.

The District is also a member of the California Sanitation Risk Management Authority (CSRMA) a public risk sharing pool. The District's workers compensation claims are handled by CSRMA. A Board composed of one representative from each member agency governs CSRMA. The Board controls the operations of CSRMA including selection of management and approval for operating budgets, independent of any influence by member entities. A copy of the audit report may be obtained from CSRMA at the Authority's web site at www.csrma.org.

In addition to SDRMA, the District also carries commercial insurance coverage for pollution legal liability and property damage. Settled claims for SDRMA or commercial insurance have not exceeded coverage in any of the past three fiscal years.

NAPA SANITATION DISTRICT

Notes to Basic Financial Statements June 30, 2011

8. RISK MANAGEMENT (continued)

The following is a summary of the insurance policies carried by the District for the fiscal year ended June 30, 2011:

<i>Comprehensive Business Policy - SDRMA</i>		
General property		\$ 1,000,000,000
Special property coverage		Various
General liability		10,000,000
Boiler and machinery		100,000,000
Auto, personal injury & property damage liability		10,000,000
Uninsured/underinsured motorists		750,000
Errors and omissions liability		2,500,000
Employment practices liability		2,500,000
Employee benefits liability		2,500,000
Public employees/officials dishonesty blanket coverage		400,000
Public officials personal liability		500,000
 <i>Workers' Compensation Program</i>		
CSRMA Initial workers' compensation		750,000
National Union Fire Co. of Pittsburg, PA	Excess workers' compensation	Statutory
National Union Fire Co. of Pittsburg, PA	Employer's liability	1,000,000
 <i>Pollution Legal Liability</i>		
Indian Harbor Insurance Co.		5,000,000

9. CAPITAL CONTRIBUTIONS

A portion of the construction costs for sewer lines completed by the District were paid for by outside parties. The donated portion of these assets is recorded as capital contributions and is reported at estimated fair value.

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REQUIRED SUPPLEMENTARY INFORMATION

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NAPA SANITATION DISTRICT

Required Supplementary Information
For the Year Ended June 30, 2011

FUNDING STATUS – CALPERS

Funded Status of CalPERS Plan

The funded status of the District's plan, including the actuarial value of the plan's assets and the actuarial accrued liability, is no longer available, except on a pooled basis. Additional information can be obtained from CalPERS, 400 P Street, Sacramento, California 95814.

NAPA SANITATION DISTRICT

Required Supplementary Information
For the Year Ended June 30, 2011

SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT BENEFIT PLAN

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

In future years, three year trend information will be presented. Fiscal year 2008/2009 was the first year of implementation of GASB Statement 45, and the District elected to implement prospectively; therefore three year comparative data is not available.

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
1/1/2008	\$ --	\$ 6,737,000	0.00%	\$ 6,737,000	\$ 4,045,900	166.51%
1/1/2010	\$ --	\$ 4,844,800	0.00%	\$ 4,844,800	\$ 4,050,300	119.62%

OTHER REPORT

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

Board of Directors
Napa Sanitation District
Napa, California

We have audited the financial statements of the Napa Sanitation District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Napa Sanitation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Napa Sanitation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Napa Sanitation District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Napa Sanitation District
Napa, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Napa Sanitation District's financial statements are free of 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*.

This report is intended solely for the information of the Napa Sanitation District, management, the Board of Directors, others within the entity, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gallina LLP

Roseville, California
December 13, 2011

STATISTICAL SECTION

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This section of the Napa Sanitation District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Financial Trend Information

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Net Assets
Changes in Net Assets

Revenue Capacity Information

These schedules contain information to help the reader assess the factors affecting the District's ability to generate its largest single own-source revenue: sewer service charges.

Sewer Service Charge Revenue
Sewer Service Charge Rates
Capacity Charges
Principal Revenue Payers

Debt Capacity Information

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Debt Service Coverage
Outstanding Debt per Connections

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

Demographic and Economic Statistics
Principal Employers

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sewer System Connections
Daily Average Influent Flow
Recycled Water Sales

Napa Sanitation District

Net Assets For the Past Ten Fiscal Years (in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assets										
Current & other assets	\$ 41,874	\$ 33,911	\$ 30,544	\$ 32,647	\$ 32,056	\$ 24,065	\$ 20,523	\$ 20,801	\$ 23,163	\$ 23,239
Capital assets	119,668	128,917	136,063	136,830	137,939	145,408	149,064	150,123	147,829	148,192
Total assets	161,542	162,828	166,607	169,477	169,995	169,473	169,587	170,924	170,992	171,431
Liabilities										
Current & other liabilities	3,638	3,674	3,688	2,793	4,462	3,696	3,094	3,146	3,441	4,250
Long-term liabilities	42,950	41,839	41,693	40,511	39,427	38,281	37,099	37,097	37,744	35,831
Total liabilities	46,588	45,513	45,381	43,304	43,889	41,977	40,193	40,243	41,185	40,081
Net assets										
Invested in capital assets, net of related debt		86,183	96,686	98,663	100,719	109,339	114,093	115,483	112,467	114,274
Restricted for debt service and construction projects		18,892	15,543	16,193	5,429	8,997	9,957	4,114	3,014	3,388
Unrestricted		12,240	8,998	11,317	19,958	9,161	5,344	11,084	14,326	13,689
Total Net Assets	\$ 114,954	\$ 117,315	\$ 121,227	\$ 126,173	\$ 126,106	\$ 127,497	\$ 129,394	\$ 130,681	\$ 129,807	\$ 131,351

Source: Napa Sanitation District Basic Financial Statements

Note: GASB Statement No. 34 was implemented as of 6/30/03 therefore the reporting model is different for 6/30/02.

Napa Sanitation District

Changes in Net Assets For the Past Ten Fiscal Years (in thousands)

	Fiscal Year									
	2002 ⁽¹⁾	2003 ⁽²⁾	2004 ⁽²⁾	2005	2006	2007	2008	2009	2010	2011
Operating Revenues										
Sewer charges				\$ 10,192	\$ 10,422	\$ 12,003	\$ 14,051	\$ 16,881	\$ 17,089	\$ 17,173
Connection fees				3,397	1,773	2,638	2,868	821	592	1,339
Other charges for services				353	297	284	296	220	530	531
Total operating revenues	12,603	13,422	13,625	13,942	12,492	14,925	17,215	17,922	18,211	19,043
Operating Expenses										
Insurance		191	216	204	214	245	238	229	196	199
Salaries and benefits		2,521	3,202	3,846	4,717	5,044	5,482	6,124	6,333	6,422
Materials, supplies and repairs		1,788	2,710	2,069	1,392	1,233	1,811	1,413	1,288	1,321
General and administrative		440	552	515	354	399	378	322	416	408
Contractual services		1,081	1,216	1,200	1,458	1,458	1,457	1,817	1,823	1,751
Utilities		1,107	1,039	918	995	927	1,197	1,047	925	834
Depreciation		3,932	4,193	4,763	4,915	5,040	5,357	6,186	6,519	6,653
Amortization		34	34	35	15	15	15	15	394	33
Total operating expenses	8,444	11,094	13,162	13,550	14,060	14,361	15,935	17,153	17,894	17,621
Operating income (loss)	4,159	2,328	463	392	(1,568)	564	1,280	769	317	1,422
Non-Operating Revenues (Expenses)										
Lease income	88	78	99	229	228	70	164	528	301	168
Taxes	(26)	(28)	(27)	(28)	(28)	(26)	(29)	(31)	(24)	(23)
Gain (loss) on disposal of assets	(217)	30	(19)	4,376	5	17	(10)	(80)	(61)	96
Interest income	1,685	1,115	626	756	1,011		886	459	183	144
Interest expense	(210)	(1,599)	(1,602)	(1,746)	(1,886)	(1,913)	(1,755)	(1,812)	(1,820)	(1,127)
Other revenue (expense)	195	(61)	328	222	1,130	837	341	991	133	160
Total Non-operating Revenues (Expenses)	1,515	(465)	(595)	3,809	460	(1,015)	(403)	55	(1,288)	(582)
Income (loss) before capital contributions	5,674	1,863	(132)	4,201	(1,108)	(451)	877	824	(971)	840
Capital contributions	21,870	498	4,043	746	1,041	785	1,019	463	98	703
Change in net assets	27,544	2,361	3,911	4,947	(67)	334	1,896	1,287	(873)	1,543
Total net assets - beginning of year	87,410	114,954	117,315	121,226	126,173	126,106	127,498	129,394	130,681	129,807
Total net assets - end of year	\$ 114,954	\$ 117,315	\$ 121,226	\$ 126,173	\$ 126,106	\$ 126,440	\$ 129,394	\$ 130,681	\$ 129,808	\$ 131,350

Source: Napa Sanitation District Basic Financial Statements

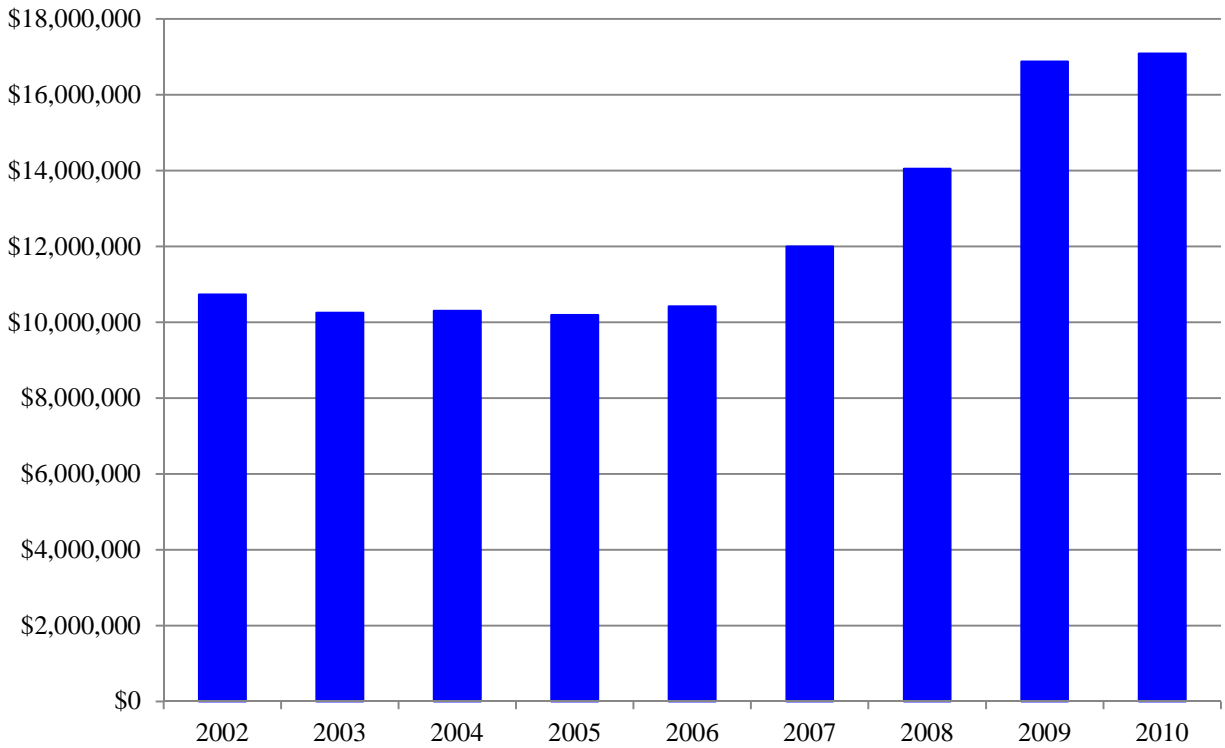
Notes:

(1) GASB Statement No. 34 was implemented as of 6/30/03 therefore the reporting model is different for 6/30/02.

(2) Breakdown of revenue source was not reported on Audited Financial Statements.

Napa Sanitation District

Sewer Service Revenue



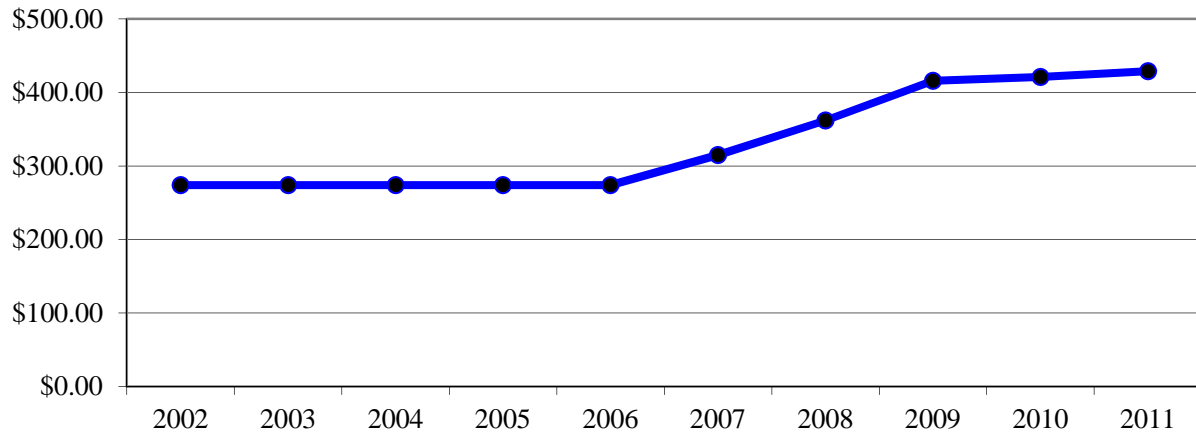
Historic Sewer Service Revenues

Fiscal Year Ended June 30	Sewer Service Revenues	Percentage Change
2002	\$10,729,569	-
2003	10,248,382	(4.5)%
2004	10,298,600	0.5%
2005	10,192,156	(1.0)%
2006	10,421,825	2.3%
2007	12,003,390	15.2%
2008	14,051,455	17.1%
2009	16,880,763	20.1%
2010	17,089,263	1.2%
2011	17,173,259	0.5%

Source: Napa Sanitation District Basic Financial Statements

Napa Sanitation District

Sewer Service Rate per EDU



Historic Sewer Service Rates

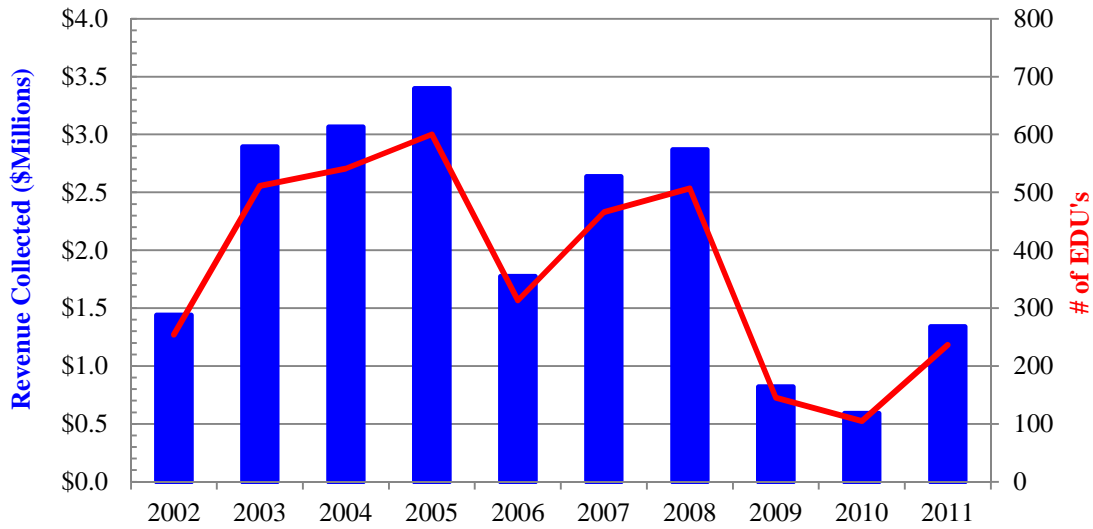
Fiscal Year Ended	Sewer Service Rates	% Increase
June 30		
2002	\$274.00	0%
2003	274.00	0%
2004	274.00	0%
2005	274.00	0%
2006	274.00	0%
2007	315.00	15.0%
2008	362.00	15.0%
2009	416.00	15.0%
2010	421.00	1.2%
2011	429.00	1.8%

Source: Napa Sanitation District

In 2006, the NSD Board of Directors approved a three year phased-in increase to the sewer service rates. For FY 2007, 2008, and 2009, the District increased rates 15% per year. The rate thereafter increases with inflation.

Napa Sanitation District

Capacity Charges



Historic Capacity Charges

FY Ended June 30	Capacity Charges (per EDU)	Total Collected	Number of EDU's
2002	\$5,660	\$1,438,716	254.2
2003	5,660	2,893,475	511.2
2004	5,660	3,063,596	541.3
2005	5,660	3,396,692	600.1
2006	5,660	1,773,246	313.3
2007	5,660	2,637,594	466.0
2008	5,660	2,867,637	506.6
2009	5,660	820,914	145.0
2010	5,660	591,859	104.6
2011	5,660	1,339,102	236.6

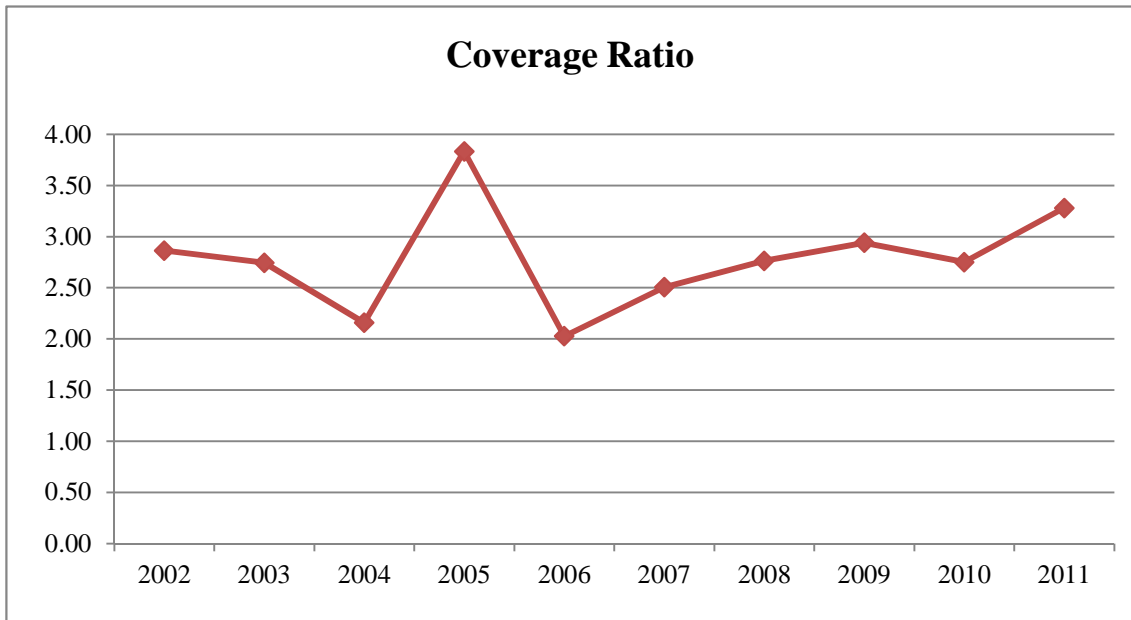
Source: Napa Sanitation District

Napa Sanitation District
Principal Revenue Payers
Current Fiscal Year and Nine Years Ago

FY 2010/11			FY 2001/02		
<u>Payer</u>	<u>Total Paid</u>	<u>Percentage of Revenue Collected</u>	<u>Payer</u>	<u>Total Paid</u>	<u>Percentage of Revenue Collected</u>
Napa State Hospital	\$473,868	2.8%	Napa State Hospital	\$201,998	1.9%
Napa Valley Unified School District	246,285	1.4%	Napa Valley Unified School District	142,918	1.4%
Queen of the Valley Hospital	181,788	1.1%	Embassy Suites	133,657	1.3%
Marriott Hotel	146,887	0.9%	Queen of the Valley Hospital	103,051	1.0%
County of Napa	142,298	0.8%	Napa Pipe	113,087	1.1%
Embassy Suites	122,974	0.7%	County of Napa	71,377	0.7%
Silverado Country Club	122,174	0.7%	Marriott Hotel	63,431	0.6%
Meritage Hotel	114,596	0.7%	Silverado Country Club	53,348	0.5%
Napa Factory Stores	70,054	0.4%	Napa Factory Stores	52,745	0.5%
Meadow of Napa Valley Retirement Community	53,299	0.3%	Albertson's Market	34,250	0.3%
Total	<u>\$1,674,223</u>	<u>9.7%</u>	Total	<u>\$969,863</u>	<u>9.2%</u>

Source: Napa Sanitation District

Napa Sanitation District



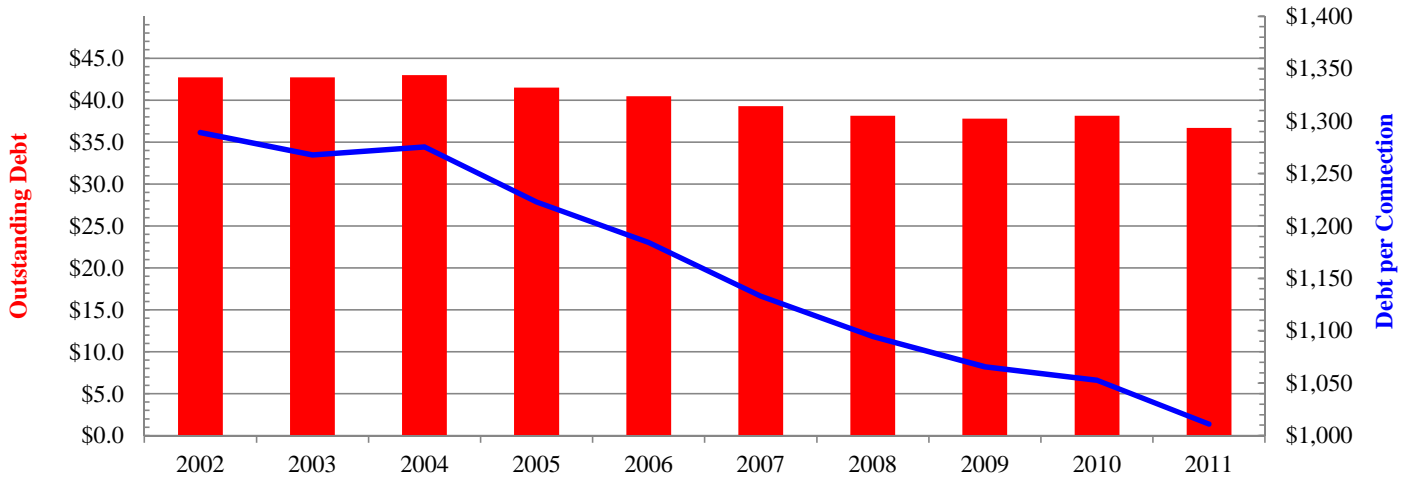
Debt Service Coverage for the Past Ten Years

Fiscal Year Ended June 30	Gross Revenues	Operating Expense	Net Revenues	Debt Service	Debt Service Coverage Ratio
2002	\$14,328,362	\$6,592,407	\$7,735,955	\$2,702,086	2.86
2003	14,556,913	7,162,533	7,394,380	2,694,588	2.74
2004	14,633,030	8,969,571	5,663,459	2,623,578	2.16
2005	19,497,359	8,751,866	10,745,493	2,803,674	3.83
2006	14,838,594	9,130,448	5,708,146	2,815,702	2.03
2007	16,880,553	9,320,195	7,560,358	3,017,855	2.51
2008	18,567,927	10,563,472	8,004,455	2,896,708	2.76
2009	19,900,016	10,983,408	8,916,608	3,033,147	2.94
2010	18,828,062	11,006,100	7,821,962	2,844,162	2.75
2011	19,516,571	10,958,807	8,557,764	2,609,220	3.28

Source: Napa Sanitation District

Napa Sanitation District

Total Outstanding Debt



Total Debt Outstanding

Type of Debt

FY Ended June 30	Notes Payable	COPs	SRFs	Total Outstanding Debt	Total Connections	Debt per Connection
2002	\$315,353	\$42,404,407	-	\$42,719,760	33,143	\$1,289
2003	315,353	42,418,998	-	42,734,351	33,712	1,268
2004	249,789	41,845,000	901,376	42,996,165	33,715	1,275
2005	179,204	40,528,180	770,566	41,477,950	33,921	1,223
2006	103,216	39,522,771	826,283	40,452,270	34,180	1,184
2007	21,410	38,482,362	786,518	39,290,290	34,675	1,133
2008	-	37,391,953	745,935	38,137,888	34,850	1,094
2009	-	36,256,544	1,537,383	37,793,927	35,465	1,066
2010	-	36,000,069	2,147,571	38,147,640	36,238	1,053
2011	-	34,639,013	2,037,972	36,676,985	36,275	1,011

Source: Napa Sanitation District

Napa Sanitation District
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population¹	Personal Income²	Per Capita Personal Income²	School Enrollment³	Unemployment Rate⁴
2002	130,015	\$4,898,598,000	\$37,677	19,461	4.3%
2003	131,799	5,054,752,000	38,352	19,673	4.8%
2004	132,394	5,405,000,000	40,835	19,765	4.6%
2005	133,294	5,787,000,000	40,835	19,654	4.3%
2006	134,326	6,242,000,000	43,669	19,908	3.7%
2007	135,969	6,737,000,000	47,971	20,087	3.8%
2008	136,704	6,994,000,000	50,817	20,108	4.6%
2009	137,723	6,809,000,000	50,569	20,370	8.8%
2010	138,917	6,817,000,000	49,808	20,515	9.3%
2011	137,639	unavailable	unavailable	20,584	9.2%

Source: County of Napa Comprehensive Annual Financial Report for FY 2010/11

Notes:

- (1) California State Department of Finance - www.dof.ca.gov/research/demographic
- (2) US Department of Commerce, Bureau of Economic Analysis - www.bea.gov
- (3) California Department of Education, Educational Demographics Office - www.ed-data.k12.ca.us
- (4) Employment Development Department, Labor Market Information - www.labormarketinfo.edd.ca.gov.

Napa Sanitation District
Principal Employers in Napa County
Current Fiscal Year and Nine Years Ago

FY 2010/11

FY 1998/99²

Employer	Percentage of Total County		Employer	Percentage of Total County	
	Employees	Employees¹		Employees	Employees¹
Napa State Hospital	2,321	3.41%	Napa State Hospital	1,973	1.69%
Queen of the Valley Hospital	1,527	2.24%	Napa Valley Unified School District	1,500	1.28%
County of Napa	1,307	1.92%	County of Napa	1,206	1.03%
St. Helena Hospital	1,261	1.85%	Queen of the Valley Hospital	1,200	1.03%
Napa Valley Unified School District	1,024	1.50%	St. Helena Hospital	960	0.82%
Veterans' Home of California	821	1.21%	Veterans' Home of California	950	0.81%
Trincherro Family Estates	730	1.07%	Robert Mondavi Winery	900	0.77%
Treasury Wine Estates	662	0.97%	Beringer Vineyards	740	0.63%
Silverado Resort	550	0.81%	Dey Labs	650	0.56%
Dey Labs	550	0.81%	Silverado Resort	630	0.54%
Total	10,753	15.79%	Total	10,709	9.15%

Notes:

(1) Total Napa County Employment 2010-2011: 68,100

(2) 1999 employee counts are reflected because employee counts are unavailable for 2002

Sources:

County of Napa Comprehensive Annual Financial Report for FY 2010/11

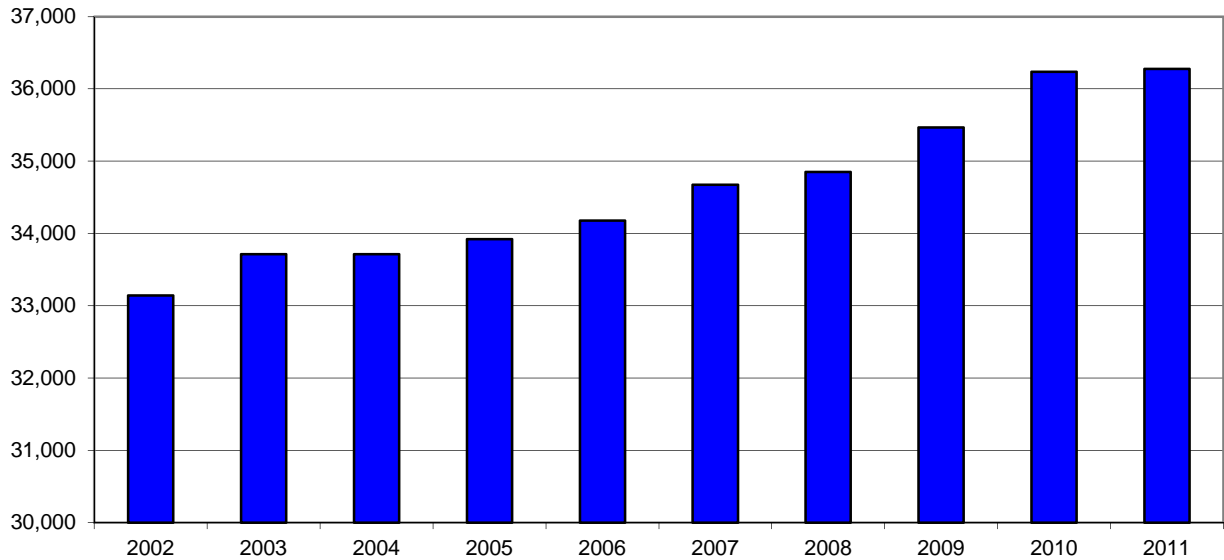
Napa Chamber of Commerce

State of California Employment Development Department <http://www.calmis.ca.gov/file/ifmonth/1106rcou.pdf>

Direct phone survey Napa County Auditor-Controller's Office

Napa Sanitation District

Total Connections



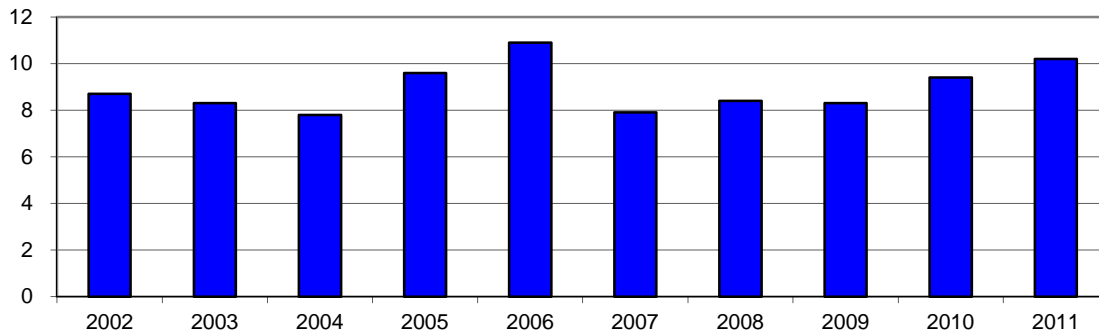
Historic Sewer System Service Connections and Equivalent Dwelling Units (EDU's)

Fiscal Year Ended June 30	Single Family	Multifamily	Commercial/ Industrial	Total Connections	Total EDU's
2002	21,945	7,663	3,535	33,143	35,036
2003	22,069	7,904	3,739	33,712	34,754
2004	22,069	7,904	3,742	33,715	35,352
2005	22,221	7,934	3,766	33,921	35,124
2006	22,352	7,989	3,839	34,180	35,560
2007	22,598	8,066	4,011	34,675	36,305
2008	22,721	8,108	4,021	34,850	36,459
2009	23,059	8,224	4,182	35,465	37,556
2010	23,303	8,526	4,409	36,238	38,135
2011	23,368	8,482	4,425	36,275	38,949

Source: Napa Sanitation District

Napa Sanitation District

Daily Average Flow (MGD)



Historic Average Daily Influent Flow at Wastewater Treatment Plant

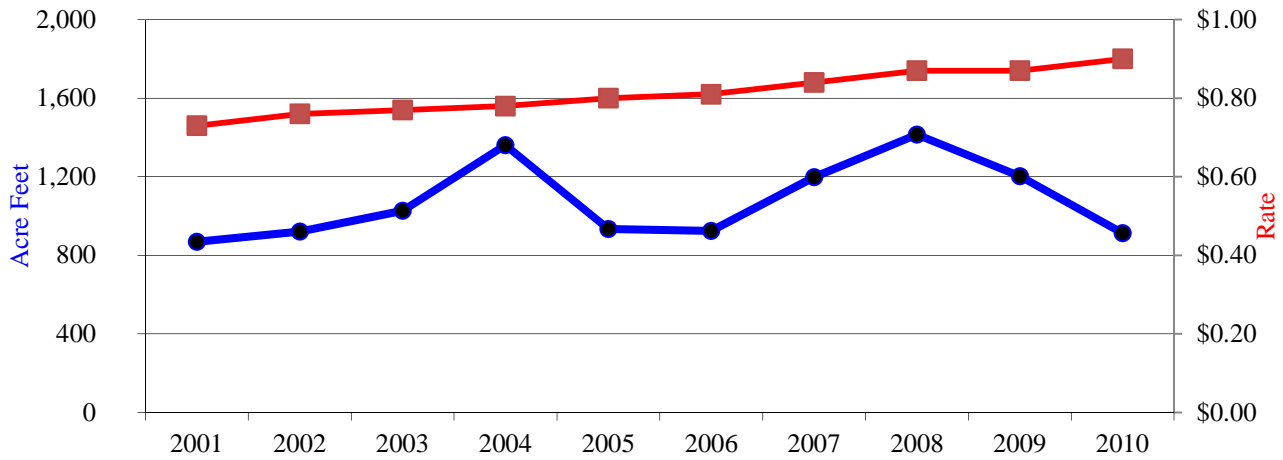
Fiscal Year Ended June 30	Daily Average Flow (MGD)	Increase/ (Decrease)
2002	8.7	-
2003	8.3	(4.8%)
2004	7.8	(6.4%)
2005	9.6	18.8%
2006	10.9	11.9%
2007	7.9	(38.0%)
2008	8.4	6.0%
2009	8.3	(1.2%)
2010	9.4	11.7%
2011	10.2	7.8%

Source: Napa Sanitation District

MGD = Million Gallons per Day

Napa Sanitation District

Recycled Water Sales in Acre Feet



Historic Annual Recycled Water Sales

Calendar Year Ending December 31	QUANTITY		RATES
	Total Acre Feet	Total Million Gallons	Rate per 1,000 Gallons
2001	869	283	\$0.73
2002	921	300	0.76
2003	1,026	334	0.77
2004	1,362	444	0.78
2005	934	304	0.80
2006	924	301	0.81
2007	1,199	391	0.84
2008	1,415	461	0.87
2009	1,204	392	0.87
2010	913	298	0.90

Source: Napa Sanitation District

Note: 1 Acre Feet = .325851 Million Gallons