

**NAPA-VALLEJO WASTE
MANAGEMENT AUTHORITY**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2012**

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Table of Contents

	<u>Page</u>
Financial Section	
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis	3-6
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-15
Other Report	
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 <i>Government Auditing Standards</i>	16-17

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
Board of Directors
Napa-Vallejo Waste Management Authority
Napa, California

We have audited the accompanying financial statements of Napa-Vallejo Waste Management Authority (Authority), as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Napa-Vallejo Waste Management Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority'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-Vallejo Waste Management Authority as of June 30, 2012, and the changes in financial position and 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 a report dated October 3, 2012 on our consideration of the Napa-Vallejo Waste Management Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Honorable Members of the
Board of Directors
Napa-Vallejo Waste Management Authority

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

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned to the right of the main text block.

Roseville, California
October 3, 2012

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis

This section of the Napa-Vallejo Waste Management Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The Authority's fiscal year 2011-2012 operating and maintenance expenses are \$9.9 million (not including closure and post-closure expenses and depreciation), an increase from \$9.7 million in fiscal year 2010-2011, or an increase of 1.8%. The increase can be attributed to higher expenses for contractual fuel surcharges, slightly increased annual tonnage, and incentive payments for material diversion.
- The Authority increased member rates from \$60 to \$61 per ton effective October 1, 2011, and increased non-member rates from \$64 to \$65 on July 1, 2011. Member franchise haulers represent about 60% of the waste received at the Authority's facility. Increases were designed to reduce the reliance on rate stabilization funds and increase reserves. These rates remained in effect throughout the fiscal year. Under the terms of the Board's rate resolution, rates charged at the transfer station increase by \$1.00 per year. The most recent increase was July 1, 2012 for non-members. Member franchise hauler rates will increase October 1, 2012.
- The Authority experienced marginal increases in the amount of material entering the transfer station which increased operating expenses, but also increased income from gate fees.
- Disposal costs decreased significantly due to a renegotiated contract with the Keller Canyon Landfill disposal site. Effective January 1, 2012, rates were reduced from \$28.85 to \$26.00 per ton for disposal of municipal solid waste and from \$16.16 to \$14.00 per ton for alternative daily cover material. This change resulted in a net decrease in disposal costs of approximately \$220,000 during the second half of the fiscal year.
- The Authority is required to maintain a debt service coverage ratio of 1.25 for each fiscal year. Although the required debt service coverage ratio was not met for its fiscal year 2011-2012 (calculated at 1.18 for fiscal year 2011-2012), the Authority continues to remain in good financial health with sufficient reserves available to fund its bond payments as they become due. With only two years remaining on its debt obligation, the Authority is committed to ensuring it meets the required debt service coverage ratio in the future and has taken the following steps:
 - Approved rate increases that will become effective October 1, 2012, July 1, 2013 and October 1, 2013
 - Achieved reduced disposal costs through renegotiated landfill contract effective January 1, 2012; fiscal year 2012-13 should realize a full year's benefit of reduced rates
 - Initiated a request for proposal process to seek further reductions in disposal costs benefitting future fiscal years

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) **Government-wide** financial statements, and 2) **Notes** to the basic financial statements. Fund financial statements are not included in the basic financial statements because all activities of the Authority are accounted for within a single enterprise fund. Enterprise funds are accounted for using the accrual method of accounting in both the Government-wide and Fund financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of Authority finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all Authority assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)

The *statement of revenues, expenses and changes in net assets (deficit)* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Both of these government-wide financial statements distinguish functions of the Authority that are principally supported by user fees and charges (*business-type activities*). There are no component units to be included in the Authority's basic financial statements.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$1,855,930 at the close of the most recent fiscal year. Further detail is provided in the tables below:

Condensed Statement of Net Assets (Deficit) As of June 30,

	2012	2011	Variance
Current assets	\$ 3,984,814	\$ 3,688,701	\$ 296,113
Non-current assets	15,227,159	15,400,975	(173,816)
Total assets	19,211,973	19,089,676	122,297
Current liabilities	2,323,658	2,063,211	260,447
Long term liabilities	15,032,385	16,397,575	(1,365,190)
Total liabilities	17,356,043	18,460,786	(1,104,743)
Net assets:			
Invested in capital assets, net of related debt	12,998,774	12,148,400	850,374
Restricted	1,302,214	1,300,234	1,980
Unrestricted	(12,445,058)	(12,819,744)	374,686
Total net assets	\$ 1,855,930	\$ 628,890	\$ 1,227,040

The significant changes in the Authority's assets are summarized as follows:

- The Authority's total assets as of June 30, 2012, amount to \$19.2 million, an increase of \$122,297 from the prior year. The majority of the increase is due to an increase in accounts receivable at the end of the year.
- The Authority's total liabilities as of June 30, 2012, are \$17.4 million, a decrease of \$1.1 million (or 6%) from the prior year. The decrease in total liabilities is the product of a decrease in revenue bonds payable and a reduction in the estimated liability for postclosure.
- The Authority's total net assets as of June 30, 2012, are \$1.9 million, an increase of \$1.2 million from the prior year. The increase in total net assets is primarily due to the combination of increased accounts receivable and a reduction of postclosure liabilities.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)

Statement of Revenues, Expenses and Changes in Net Assets (Deficit) For the Fiscal Year Ended June 30,

	2012	2011	Variance
Operating Revenues:			
Landfill/transfer station revenues	\$ 11,283,926	\$ 11,013,452	\$ 270,474
Gas royalties	21,229	38,566	(17,337)
Recycling revenues	17,030	267,077	(250,047)
Rental income	--	75,000	(75,000)
Miscellaneous	15,655	25,875	(10,220)
Total operating revenues	11,337,840	11,419,970	(82,130)
Operating Expenses:			
Salaries and benefits	181,127	183,536	(2,409)
Services and supplies	9,765,358	9,586,949	178,409
Postclosure expenses	(281,000)	(418,400)	137,400
Depreciation	282,391	278,422	3,969
Total operating expenses	9,947,876	9,630,507	317,369
Operating income (loss)	1,389,964	1,789,463	(399,499)
Non-Operating Revenue (Expense):			
Interest income	8,788	10,596	(1,808)
Interest expense	(171,712)	(223,861)	52,149
Total non-operating revenue (expense)	(162,924)	(213,265)	50,341
Net income	1,227,040	1,576,198	(349,158)
Net assets (deficit) - Beginning of Year	628,890	(947,308)	1,576,198
Net assets (deficit) - End of Year	\$ 1,855,930	\$ 628,890	\$ 1,227,040

- Operating revenues decreased mainly as a result two factors 1) recycling revenues received in 2011 were an accumulation of prior year payments that have been delayed, and 2) solar lease payments in 2012 were not received.
- Operating expenses increased mainly due to contractual fuel surcharges being in effect and increased annual tonnage.

CAPITAL ASSETS

The Authority has an ongoing capital improvement program and publishes a capital budget annually in conjunction with the Authority's budget process. The capital program is reviewed and updated on an annual basis. In addition, the Authority has a five year fiscal plan which includes anticipated capital improvements.

The Rehabilitation Master Plan for the Devlin Road Transfer Station was completed in March, 2012. The Authority has initiated engineering design contracts for two major rehabilitation projects that were identified in the Rehabilitation Master Plan: replacement of the tipping floor and rebuilding the entrance road. Construction of the tipping floor project is anticipated in 2013, followed by road replacement in 2014.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)

DEBT ADMINISTRATION

At June 30, 2012, the Authority's total long-term debt outstanding was \$16.1 million as compared to \$17.4 million in the prior year. This amount was comprised of \$2.2 million of revenue bonds payable (net of unamortized discounts) and \$13.9 million in estimated liability for closure and postclosure costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority experienced a 1.1% increase in material received at their Devlin Road Transfer Station. Increasing tonnage may reflect the ongoing improvement in general economic activity. As the economy continues to recover, this trend in waste tonnage can be expected to continue. Increased tonnage would have an overall positive effect on the Authority's finances due to the ability to spread fixed operating costs over a larger revenue base.

The Authority Board adopted the fiscal year 2012-2013 budget based on the following economic factors:

- A \$1.00 per ton per year increase to the tipping fees,
- Anticipated revenues from the solar ground lease, and
- Tonnage anticipated to increase slightly from levels of fiscal year 2011-2012.

CONTACTING THE AUTHORITY

This financial report is designed to provide the Board, our taxpayers, customers, investors and creditors with a general overview of the Authority's accountability for the assets it receives and manages. Napa County provides certain management and administrative functions, including all financial management and accounting.

If you have any questions about this report or need additional financial information, please contact the Napa County Auditor-Controller's Office, located at 1195 Third Street, Suite B-10, Napa, California 94559.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Statement of Net Assets June 30, 2012

ASSETS

Current Assets:	
Cash in treasury	\$ 1,443,149
Accounts receivable	1,190,300
Total Current Assets	<u>2,633,449</u>
Restricted Assets:	
Cash with fiscal agent - restricted	<u>1,302,214</u>
Deferred charges	<u>49,151</u>
Capital Assets:	
Land	977,749
Landfill	5,208,162
Quarry	956,000
Construction in progress	1,150,137
Structures and improvements (net of accumulated depreciation)	6,795,784
Equipment (net of accumulated depreciation)	13,107
Donated assets (net of accumulated depreciation)	126,220
Total Net Capital Assets	<u>15,227,159</u>
Total Assets	<u>\$ 19,211,973</u>

LIABILITIES

Current Liabilities:	
Accounts payable	\$ 1,190,072
Accrued salaries and benefits	9,508
Interest payable	44,078
Current portion of revenue bonds payable	1,080,000
Total Current Liabilities	<u>2,323,658</u>
Non-Current Liabilities:	
Revenue bonds payable (net of unamortized premium)	1,148,385
Estimated liability for postclosure	13,884,000
Total Non-Current Liabilities	<u>15,032,385</u>
Total Liabilities	<u>17,356,043</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	12,998,774
Restricted for:	
Debt service	1,302,214
Unrestricted	<u>(12,445,058)</u>
Total Net Assets (Deficit)	<u>1,855,930</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 19,211,973</u>

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES

Landfill/transfer station revenues	\$	11,283,926
Gas royalties		21,229
Recycling revenues		17,030
Miscellaneous		15,655
		<hr/>
Total Operating Revenues		11,337,840

OPERATING EXPENSES

Salaries and benefits		181,127
Insurance		125,531
Bond agent fees		2,500
Administration		107,144
Legal expenses		18,000
Contract services - landfill/transfer station operations		4,292,523
Transfer station disposal expenses		5,142,957
State and local fees		73,885
Office		1,223
Transportation		1,595
Postclosure expenses		(281,000)
Depreciation		282,391
		<hr/>
Total Operating Expenses		9,947,876
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Operating Income		1,389,964

NON-OPERATING REVENUE (EXPENSE)

Interest income		8,788
Interest expense		(171,712)
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Total Non-Operating Revenue (Expense)		(162,924)
		<hr/>
Net Income		1,227,040
		<hr/>
Net Assets - Beginning of Year		628,890
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Net Assets - End of Year	\$	1,855,930

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Statement of Cash Flows For the Fiscal Year Ended June 30, 2012

Cash Flows from Operating Activities:	
Receipts from customers	\$ 11,076,507
Payments to employees	(181,797)
Payments to suppliers	<u>(9,543,969)</u>
Net Cash Provided by Operating Activities	<u>1,350,741</u>
Cash Flows from Capital and Related Financing Activities:	
Payment of principal	(1,024,190)
Purchase of capital assets	(108,575)
Interest paid	<u>(167,410)</u>
Net Cash Flows Used for Capital and Related Financing Activities	<u>(1,300,175)</u>
Cash Flows from Investing Activities:	
Interest income	<u>8,788</u>
Net Cash Provided by Investing Activities	<u>8,788</u>
Net increase in cash and cash equivalents	59,354
Cash and Cash Equivalents - Beginning of Fiscal Year	<u>2,686,009</u>
Cash and Cash Equivalents - End of Fiscal Year	<u><u>\$ 2,745,363</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:	
Cash and cash equivalents in current assets	\$ 1,443,149
Cash and cash equivalents in restricted assets	<u>1,302,214</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,745,363</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:	
Operating income	\$ 1,389,964
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	282,391
(Increase) decrease in assets:	
Accounts receivable	(261,333)
Increase (decrease) in liabilities:	
Accounts payable	221,389
Accrued salaries and benefits	(670)
Postclosure liability	<u>(281,000)</u>
Net Cash Provided for Operating Activities	<u><u>\$ 1,350,741</u></u>

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Napa-Vallejo Waste Management Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority applies all relevant Governmental 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.

The Authority includes all activities (operations of its administrative staff and Authority officers) considered to be a part of the Authority. The Authority reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the Authority is financially accountable for other entities. The Authority has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the Authority is not aware of any entity that would be financially accountable for the Authority that would result in the Authority being considered a component unit of that entity.

A. Reporting Entity

The Authority, previously named the South Napa Waste Management Authority, was established on March 16, 1993, to provide economical coordination of solid waste management services and to efficiently and fairly assure against potential adverse effects of past solid waste management services within the communities it represents. The Authority consists of four members, the Cities of Napa, Vallejo and American Canyon, and the County of Napa. Each of the Cities and the County appoint one representative to the Board of Directors (Board).

B. Basis of Presentation and Accounting

The accompanying financial statements of the Authority are prepared on the accrual basis method of accounting in accordance with generally accepted accounting principles as applicable to governmental units.

All activities of the Authority are accounted for within a single enterprise fund. Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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.

Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Reporting for Nonexchange Transactions*, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and resources are available. Revenues from sales tax are recognized when the underlying transactions take place and the resources are available. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied and the resources are available.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Cash Equivalents

The Authority considers all cash held in the Napa County Treasury to be cash and cash equivalents for purposes of the statement of cash flows.

D. Receivables

Receivables consist of fees charged at the various sites. The Authority believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

E. Deferred Charges

Deferred charges represent the cost of issuance of the revenue bonds payable.

F. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The Authority 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.

Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements. Depreciation begins on the first day of the fiscal year following the period the asset is placed in service and ends in the fiscal year that it is retired from service or is fully depreciated.

The estimated useful lives are as follows:

Infrastructure	20 to 50 years
Structures and improvements	20 to 50 years
Equipment	3 to 15 years

G. Net Assets

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 in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consists of all other net assets not included in the above categories.

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Use of Estimates

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

NOTE 2: CASH AND INVESTMENTS

The Authority holds its cash and investments as follows:

A. Cash in Treasury

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

Required disclosures for the Authority's deposit and investment risks at June 30, 2012, were as follows:

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

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

B. Cash with Fiscal Agent

The Authority holds all of its restricted cash with US Bank (Agent). The Authority holds the cash in four separate accounts for the purpose of paying principal and interest on the 2004 revenue bonds and a reserve for the bond issue. The fair value of investments in US Bank is determined monthly based upon quoted market prices.

The Agent has invested the cash for each account by the following categories:

Account	Investment	Amount
Debt Service Reserve	Money market mutual funds	\$ 903,000
Bond Fund	Money market mutual funds	399,214
Total Cash with Fiscal Agent		\$ 1,302,214

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

B. Cash with Fiscal Agent (continued)

At fiscal year end, the Authority's investment balances with the fiscal agent were categorized as follows:

	<u>Interest Rates</u>	<u>Maturities</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Cash with Fiscal Agent						
Money market mutual funds	Variable	On Demand	\$ 1,302,214	\$ 1,302,214	\$ 1,302,214	--
Total			<u>\$ 1,302,214</u>	<u>\$ 1,302,214</u>	<u>\$ 1,302,214</u>	<u>--</u>

At June 30, 2012, the difference between the cost and fair value of cash and investments was not material. Therefore, an adjustment to fair value was not made for GASB 31 compliance.

NOTE 3: CAPITAL ASSETS

The Authority's assets consist of property for the American Canyon Sanitary Landfill and property, plant and equipment for the Devlin Road Transfer Station. The capital assets purchased are recorded at cost. The landfill and the quarry represent items that were acquired with the landfill and are valued at fair market value as of the date acquired. Capital assets activity for the year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated:					
Land	\$ 977,749	\$ --	\$ --	\$ --	\$ 977,749
Landfill	5,208,162	--	--	--	5,208,162
Quarry	956,000	--	--	--	956,000
Construction in progress	1,217,408	--	--	(67,271)	1,150,137
Total capital assets, not being depreciated	<u>8,359,319</u>	<u>--</u>	<u>--</u>	<u>(67,271)</u>	<u>8,292,048</u>
Capital assets, being depreciated:					
Structures and improvements	10,960,723	94,012	--	67,271	11,122,006
Equipment	--	14,563	--	--	14,563
Donated assets	196,073	--	--	--	196,073
Total capital assets, being depreciated	<u>11,156,796</u>	<u>108,575</u>	<u>--</u>	<u>67,271</u>	<u>11,332,642</u>
Less accumulated depreciation for:					
Structures and improvements	(4,050,189)	(276,033)	--	--	(4,326,222)
Equipment	--	(1,456)	--	--	(1,456)
Donated assets	(64,951)	(4,902)	--	--	(69,853)
Total accumulated depreciation	<u>(4,115,140)</u>	<u>(282,391)</u>	<u>--</u>	<u>--</u>	<u>(4,397,531)</u>
Total capital assets, being depreciated, net	<u>7,041,656</u>	<u>(173,816)</u>	<u>--</u>	<u>67,271</u>	<u>6,935,111</u>
Total capital assets, net	<u>\$ 15,400,975</u>	<u>\$ (173,816)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 15,227,159</u>

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

NOTE 4: REVENUE BONDS PAYABLE

In July of 2004, the Authority issued \$9,030,000 of 2004 Revenue Bonds at rates between 2.4% and 5.5%, which refunded the 1994 Revenue Bonds. These bonds were originally issued in March of 1994 for the purpose of constructing a transfer station. The revenue bonds are made up of serial and term bonds. The bonds are special obligations of the Authority, and are payable from and secured by a pledge of net revenues, as defined in the Indenture, primarily from the operations of the landfill and transfer station.

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Bonds payable	\$ 3,240,000	\$ --	\$ (1,020,000)	\$ 2,220,000	\$ 1,080,000
Unamortized premium	12,575	--	(4,190)	8,385	--
Total Long-Term Liabilities	<u>\$ 3,252,575</u>	<u>\$ --</u>	<u>\$ (1,024,190)</u>	<u>\$ 2,228,385</u>	<u>\$ 1,080,000</u>

As of June 30, 2012, annual debt service requirements to maturity are as follows:

Year Ending June 30	Bonds Payable	
	Principal	Interest
2013	\$ 1,080,000	\$ 117,540
2014	1,140,000	58,140
Subtotal	2,220,000	<u>\$ 175,680</u>
Plus: Unamortized Premium	<u>8,385</u>	
Total	<u>\$ 2,228,385</u>	

NOTE 5: ESTIMATED LIABILITY ON POSTCLOSURE OF THE LANDFILL

State and federal laws and regulations require the Authority to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although postclosure care costs will be paid only after the final closure date, and since the Authority has completed closure construction, it reports a portion of postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The \$13,884,000 reported as landfill postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill.

Pursuant to GASB statement 18, section L10.106, on landfill closure and postclosure care costs regulations, a portion of the estimated total current cost of municipal solid waste landfill closure and postclosure care should be recognized as an expense and as a liability in each period that the municipal solid waste landfill accepts solid waste.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2012

NOTE 5: ESTIMATED LIABILITY ON POSTCLOSURE OF THE LANDFILL (CONTINUED)

The estimated cost of postclosure is based on what it would cost to perform all postclosure care as of June 30, 2012. The 24 remaining years of postclosure costs are estimated at \$13.9 million.

In 2007, the Authority completed the first year of its required 30 year postclosure care period. The remaining estimated postclosure costs are \$13.9 million and will be paid over a 24 year postclosure care period. The Authority expects that future inflation costs will be paid from interest earnings. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future users.

Estimated costs for postclosure	\$ 13,884,000
Multiply by percentage of capacity used	<u>100%</u>
Estimated liability at June 30, 2012	<u>\$ 13,884,000</u>

In June 2006, the Authority received final closure approval from the State. Therefore, the \$13,884,000 estimated liability represents only the remaining postclosure care liability.

NOTE 6: ECONOMIC DEPENDENCY

The Authority has four major customers. Recology Vallejo, Napa County Recycling and Waste Services, Recology American Canyon, and Napa Recycling and Waste Services represent approximately 68 percent of the Authority's revenue. These companies have contracts with the individual Cities and County for providing waste disposal services. The respective jurisdictions have contracted with the Authority to dispose of all waste generated within their jurisdiction.

NOTE 7: RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2012, the Authority paid Napa County, a related party, \$110,466 for collections, legal, accounting and administrative services.

NOTE 8: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; general liability and earthquake. The Authority has secured commercial lines of coverage for these types of losses.

OTHER REPORT



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

To the Honorable Members of the
Board of Directors
Napa-Vallejo Waste Management Authority
Napa, California

We have audited the financial statements of Napa-Vallejo Waste Management Authority (Authority) as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. 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 Authority’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 our opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 Authority’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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’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*.

To the Honorable Members of the
Board of Directors
Napa-Vallejo Waste Management Authority

This report is intended solely for the information and use of the Napa-Vallejo Waste Management Authority, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned to the right of the main text block.

Roseville, California
October 3, 2012