

**NAPA-VALLEJO WASTE
MANAGEMENT AUTHORITY**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2004**

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Table of Contents

	<u>Page</u>
Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-7
Statement of Net Assets (Deficit)	8
Statement of Revenues, Expenses and Changes in Net Assets (Deficit).....	9
Statement of Cash Flows	10
Notes to Financial Statements.....	11-21
Other Report	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22-23

FINANCIAL SECTION

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Napa-Vallejo Waste Management Authority (Authority), as of and for the fiscal year ended June 30, 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2004, 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.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2004 on our consideration of the Napa-Vallejo Waste Management Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

October 29, 2004
Roseville, California

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2004

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, 2004. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The Authority was able to utilize surplus cash to continue to stabilize rates at \$54 per ton.
- The Authority continued to make progress in completing the closure post closure of American Canyon Sanitary Landfill.
- The tipping fee revenues continue to grow as a result of increases in tonnage received at the Devlin Road Transfer Station.

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.

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.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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, liabilities exceeded assets by \$6,044,778 at the close of the most recent fiscal year. Further detail is provided in Table 1.

Table 1 - Authority's Net Assets (in thousands)

	Business-type		Total	
	Activities		Dollar	Percent
	2004	2003	Change	Change
Current and other assets	\$ 14,028	\$ 15,856	\$ -1,828	-11.5%
Capital assets	11,677	11,490	187	1.6%
Total assets	25,705	27,346	-1,641	-6.0%
Current and other liabilities	3,232	2,142	1,090	50.9%
Long-term liabilities	28,517	29,178	-661	-2.3%
Total liabilities	31,749	31,320	429	1.4%
Net assets:				
Invested in capital assets, net of related debt	2,619	1,806	813	45.0%
Restricted net assets	8,675	11,496	-2,821	-24.5%
Unrestricted net assets	-17,339	-17,276	-63	0.4%
Total net assets	\$ -6,045	\$ -3,974	\$ -2,071	52.1%

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

- The Authority's total assets as of June 30, 2004, amount to \$25.7 million, a decrease of \$1.6 million (or 6.0%) from the prior year. The majority of the decrease in total assets is due to an increase in landfill closure expenses and the use of cash with fiscal agent – restricted.
- The Authority's total liabilities as of June 30, 2004, are \$31.7 million, an increase of \$0.4 million (or 1.4%) from the prior year. The increase in total liabilities is the product of an increase in accounts payable and a decrease in the revenue bonds payable.

The Authority's total net assets as of June 30, 2004, are -\$6.0 million, a decrease of \$2.0 million (or 52.1%) from the prior year. The decrease in total net assets is due to a decrease in the amount of restricted net assets for landfill closure.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2004

Table 2 - Authority's Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
(in thousands)

	Business-type		Total	
	Activities		Dollar	Percent
	2004	2003	Change	Change
Operating Revenues:				
Landfill/transfer station revenues	\$ 13,402	\$ 12,466	\$ 936	7.5%
Gas royalties	123	64	59	92.2%
Miscellaneous	142	67	75	111.9%
Total operating revenues	<u>13,667</u>	<u>12,597</u>	<u>1,070</u>	<u>8.5%</u>
Operating Expenses:				
Insurance	152	49	103	210.2%
Bond agent fees	14	7	7	100.0%
Administration	167	158	9	5.7%
Contract services - landfill/transfer station operations	3,018	2,991	27	0.9%
Transfer station disposal expense	11,429	10,362	1,067	10.3%
State and local fees	68	87	(19)	-21.8%
Office	6	1	5	500.0%
Transportation	9	12	(3)	-25.0%
Closure and postclosure expenses	0	(9,598)	9,598	-100.0%
Depreciation	319	319	0	0.0%
Total operating expenses	<u>15,182</u>	<u>4,388</u>	<u>10,794</u>	<u>246.0%</u>
Operating Income/(Loss)	<u>(1,515)</u>	<u>8,209</u>	<u>(9,724)</u>	<u>-118.5%</u>
Non-Operating Revenue (Expense):				
Interest income	103	326	(223)	-68.4%
Interest expense	(659)	(699)	40	-5.7%
Total Non-Operating Revenue (Expense)	<u>(556)</u>	<u>(373)</u>	<u>(183)</u>	<u>49.1%</u>
Net Income (Loss)	<u>(2,071)</u>	<u>7,836</u>	<u>(9,907)</u>	<u>-126.4%</u>
Total Net assets (Deficit) - Beginning of Fiscal Year	<u>(3,974)</u>	<u>(11,810)</u>	<u>7,836</u>	<u>-66.4%</u>
Total Net assets (Deficit) - End of Fiscal Year	<u>\$ (6,045)</u>	<u>\$ (3,974)</u>	<u>\$ (2,071)</u>	<u>52.1%</u>

The Authority's change in net assets has decreased by \$2.0 million during the current fiscal year. This decline reflects the net effect of increases in both total operating revenues and total operating expenses. The Authority's total operating revenues as of June 30, 2004, amount to \$13.7 million, an increase of \$1.1 million (or 9.1%) from the prior year. The majority of the increase in total operating revenues was due to increases in landfill/transfer station revenues as a result of an increase in waste received at the Devlin Road Transfer Station. The Authority's total operating expenses as of June 30, 2004, amount to \$15.2 million, an increase of 10.8 million (or 246.0%) from the prior year. The majority of this increase is due to an updated estimate of the 30-year post closure care cost in fiscal year 2002-2003 (-\$9.6 million) and an increase in the current year's contract services (\$1.1 million).

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Authority has an ongoing capital improvement program and publishes a capital budget annually in conjunction with the Authority budget process. The capital program is reviewed and updated on an annual basis.

The majority of capital improvement projects relate to the final closure of the American Canyon Sanitary Landfill and are ultimately funded by the landfill closure trust account.

In addition, the Authority and the City of American Canyon have a joint project that will convert landfill gas to electricity. The electricity will be used to supply power to the City of American Canyon's Waste Water Treatment Facility. The estimated cost for the project is \$1.27 million. After completion, the City of American Canyon will reimburse the Authority approximately \$234,000 for their share of the cost. The Authority also expects to receive a grant reimbursement equaling \$242,500 resulting in the Authority's net capital expenditures of \$734,000. Projected future revenues from the project will yield approximately \$80,000 per year. Project completion is expected in the Spring of 2005.

Debt administration

At June 30, 2004, the Authority's total long-term debt outstanding was \$29,192,146 as compared to \$29,818,418 in the prior year. This amount was comprised of \$9,057,809 of revenue bonds payable (net of unamortized discounts) and \$20,134,337 in estimated liability for closure and postclosure costs. The Authority began the process of refunding the 1994 revenue bonds in the later part of fiscal year 2003-2004. The refunded bonds have been issued in July 2004 which resulted in lower required annual debt service payments.

ECONOMIC FACTORS

- The Authority's fiscal year 2003-2004 operating and maintenance expenses are \$14.9 million (not including closure and post closure expenses and depreciation), up from \$13.7 million in fiscal year 2002-2003 or an 8.8% increase. The budget reflects increases in general operating and maintenance costs due to inflation, as well as increases in waste received at Devlin Road Transfer Station.
- There were no rate increases in fiscal year 2003-2004. The Manager has proposed a rate increase for the later part of fiscal year 2004-2005 and fiscal year 2005-2006 to reduce the use for rate stabilization funds.
- The Authority will continue to utilize the rate stabilization fund to offset increases in operating and maintenance costs not covered by fee increases.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2004

REQUESTS FOR INFORMATION

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. The County of Napa 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 Auditor-Controller's Office, County of Napa, located at 1195 Third Street, Suite B-10, Napa, California 94559.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Statement of Net Assets (Deficit)

June 30, 2004

ASSETS

Current Assets:

Cash in Treasury	\$ 3,399,164
Accounts receivable	1,096,037
Total Current Assets	<u>4,495,201</u>

Restricted Assets:

Cash with fiscal agent - restricted	8,675,464
Operations and maintenance reserve held in Treasury	700,000
Total Restricted Assets	<u>9,375,464</u>

Deferred charges	<u>157,384</u>
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Capital Assets:

Land	977,749
Landfill	1,384,711
Quarry	956,000
Structures and improvements (net of accumulated depreciation)	8,192,765
Donated assets (net of accumulated depreciation)	165,436
Total Net Capital Assets	<u>11,676,661</u>

Total Assets	<u>\$ 25,704,710</u>
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LIABILITIES

Current Liabilities:

Accounts payable	\$ 2,334,676
Interest payable	222,666
Current portion of revenue bonds payable	675,000
Total Current Liabilities	<u>3,232,342</u>

Non-Current Liabilities:

Revenue bonds payable (net of unamortized discounts)	8,382,809
Estimated liability for closure and postclosure	20,134,337
Total Non-Current Liabilities	<u>28,517,146</u>

Total Liabilities	<u>31,749,488</u>
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NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	2,618,852
Restricted for:	
Debt service	2,217,054
Landfill closure	5,456,561
Environmental liability	1,001,848
Unrestricted	<u>(17,339,093)</u>

Total Net Assets (Deficit)	<u>(6,044,778)</u>
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Total Liabilities and Net Assets (Deficit)	<u>\$ 25,704,710</u>
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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 (Deficit)
For the Fiscal Year Ended June 30, 2004

Operating Revenues:

Landfill/transfer station revenues	\$ 13,401,636
Gas royalties	123,276
Miscellaneous	<u>142,111</u>
 Total Operating Revenues	 <u>13,667,023</u>

Operating Expenses:

Insurance	152,349
Bond agent fees	13,484
Administration	167,097
Contract services - landfill/transfer station operations	3,017,036
Transfer station disposal expense	11,429,224
State and local fees	68,159
Office	5,845
Transportation	9,122
Depreciation	<u>319,218</u>
 Total Operating Expenses	 <u>15,181,534</u>

Operating Income (Loss)	<u>(1,514,511)</u>
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Non-Operating Revenue (Expense):

Interest income	103,118
Interest expense	<u>(659,468)</u>
 Total Non-Operating Revenue (Expense)	 <u>(556,350)</u>

Net Income (Loss)	(2,070,861)
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Total Net Assets (Deficit) - Beginning of Fiscal Year	<u>(3,973,917)</u>
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Total Net Assets (Deficit) - End of Fiscal Year	<u><u>\$ (6,044,778)</u></u>
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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, 2004

Cash Flows from Operating Activities:

Receipts from customers	\$ 13,227,681
Payments to suppliers	<u>(13,467,496)</u>

Net Cash Provided (Used) for Operating Activities	<u>(239,815)</u>
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Cash Flows from Capital and Related Financing Activities:

Payment of principal	(640,000)
Purchase of capital assets	(506,199)
Interest paid	<u>(632,175)</u>

Net Cash Flows Used for Capital and Related Financing Activities	<u>(1,778,374)</u>
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Cash Flows from Investing Activities:

Interest income	<u>103,118</u>
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Net Cash Provided by Investing Activities	<u>103,118</u>
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Net increase in cash and cash equivalents	(1,915,071)
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Cash and Cash Equivalents - Beginning of Fiscal Year	<u>14,689,699</u>
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Cash and Cash Equivalents - End of Fiscal Year	<u><u>\$ 12,774,628</u></u>
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Reconciliation of Cash and Cash Equivalents to the Balance Sheet:

Cash and cash equivalents in current assets	3,399,164
Cash and cash equivalents in restricted assets	<u>9,375,464</u>

Total Cash and Cash Equivalents	<u><u>\$ 12,774,628</u></u>
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Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)

By Operating Activities:

Operating income (loss)	\$ (1,514,511)
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Adjustments to reconcile operating loss to net cash provided by operating activities:

Depreciation	319,218
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(Increase) Decrease in Assets:

Accounts receivable	(114,437)
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Increase (Decrease) in Liabilities:

Accounts payable	<u>1,069,915</u>
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Net Cash Provided (Used) for Operating Activities	<u><u>\$ (239,815)</u></u>
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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, 2004

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 Fund 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.

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.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation and Accounting (continued)

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.

C. Cash and Investments

The Authority maintains its cash in the Napa County Treasury and participates in the County's common investment pool. The County is restricted by California State Government Code in the types of investments it can make. Information relating to the County's cash and investments by risk category is presented, in total, in the County of Napa's Annual Financial Report for the fiscal year ended June 30, 2004, as required by Government Accounting Standards Board Statement No. 3. The Napa County Treasury Oversight Committee oversees the Treasurer's investment policies.

D. 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.

E. Deferred Charges

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

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 on 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. 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.

H. 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.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

H. **Net Assets** (continued)

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

I. **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 Held with the Napa County Treasury**

The Authority holds unrestricted cash in the Napa County Treasury which maintains a Cash and Investments pool. The fair value of investments in the pool is determined monthly based upon quoted market prices.

The Authority also maintains an Operation and Maintenance Reserve Account required by the bond indenture in a trust fund held in the County of Napa's treasury.

B. **Cash Held with Fiscal Agent**

The Authority holds all of its restricted cash, except for the reserve above held in the treasury, with US Bank (Agent). The Authority holds the cash in six separate accounts, for the purpose of paying principal and interest on the 1994 revenue bonds, a reserve for the bond issue, a trust fund to pay for the closure of the sanitary landfill, and a reserve for contingent environmental liability. The fair value of investments in US Bank is determined monthly based upon quoted market prices.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 2: **Cash and Investments** (continued)

B. Cash Held with Fiscal Agent (continued)

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

1. <u>Principal Account</u>	
Money market mutual funds	\$ --
2. <u>Interest Account</u>	
Money market mutual funds	<u>\$ 3,286</u>
3. <u>Debt Service Reserve Account</u>	
Money market mutual funds	<u> 1,274,509</u>
4. <u>Bond Fund Account</u>	
Money market mutual funds	<u> 939,259</u>
5. <u>Landfill Closure Trust Fund Account</u>	
Money market mutual funds	<u> 5,456,562</u>
6. <u>Environment Liability Trust Fund Account</u>	
Money market mutual funds	<u> 1,001,848</u>
Total Cash Held with Fiscal Agent	<u><u>\$ 8,675,464</u></u>

The investments held with the fiscal agent can be categorized into these three categories of credit risk.

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 2: **Cash and Investments** (continued)

B. Cash Held with Fiscal Agent (continued)

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

	<u>Category</u> <u>1</u>	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
U.S. government securities	<u>\$ --</u>	\$ --	\$ --
Investments not subject to categorization:			
Mutual funds		<u>8,675,464</u>	<u>8,675,464</u>
Total		<u>\$ 8,675,464</u>	<u>\$ 8,675,464</u>

At June 30, 2004, the difference between the cost and fair value of cash and investments was not material. Therefore, an adjustment to fair value was not required for GASB 31 compliance.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 3: **Capital Assets**

The Authority purchased or received its property, plant, and equipment as part of the landfill acquisition. The fixed 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, 2004 was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital assets, not being depreciated:					
Land	\$ 977,749	\$ --	\$ --	\$ --	\$ 977,749
Landfill	1,230,382	154,329	--	--	1,384,711
Quarry	<u>956,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>956,000</u>
Total capital assets, not being depreciated	<u>3,164,131</u>	<u>154,329</u>	<u>--</u>	<u>--</u>	<u>3,318,460</u>
Capital assets, being depreciated:					
Structures and improvements	10,562,630	351,870	--	--	10,914,500
Donated assets	<u>196,073</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>196,073</u>
Total capital assets, being depreciated	<u>10,758,703</u>	<u>351,870</u>	<u>--</u>	<u>--</u>	<u>11,110,573</u>
Less accumulated depreciation for:					
Structures and improvements	(2,407,419)	(314,316)	--	--	(2,721,735)
Donated assets	<u>(25,735)</u>	<u>(4,902)</u>	<u>--</u>	<u>--</u>	<u>(30,637)</u>
Total accumulated depreciation	<u>(2,433,154)</u>	<u>(319,218)</u>	<u>--</u>	<u>--</u>	<u>(2,752,372)</u>
Total capital assets, being depreciated, net	<u>8,325,549</u>	<u>32,652</u>	<u>--</u>	<u>--</u>	<u>8,358,201</u>
Total capital assets, net	<u>\$ 11,489,680</u>	<u>\$ 186,981</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 11,676,661</u>

Note 4: **Revenue Bonds Payable**

In March of 1994, the Authority issued \$14,165,000 of 1994 Revenue Bonds at rates between 3.8% and 6.5%, 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. In July of 2004, the Authority refunded these bonds. See Note 11 for information regarding subsequent event.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 4: **Revenue Bonds Payable** (continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2004:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 9,775,000	\$ --	\$ (640,000)	\$ 9,135,000	\$ 675,000
Total Long-Term Liabilities	<u>\$ 9,775,000</u>	<u>\$ --</u>	<u>\$ (640,000)</u>	<u>\$ 9,135,000</u>	<u>\$ 675,000</u>

As of June 30, 2004, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30:</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 675,000	\$ 593,775
2006	720,000	549,900
2007	770,000	503,100
2008	820,000	453,050
2009	870,000	399,750
2010-2014	<u>5,280,000</u>	<u>1,073,150</u>
Subtotal	9,135,000	<u>\$ 3,572,725</u>
Less: Unamortized Discount	<u>(77,191)</u>	
Total	<u>\$ 9,057,809</u>	

Note 5: **Estimated Liability on Closure and 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 is completing closure construction, it reports a portion of closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$19,951,100 reported as landfill closure and postclosure care liability at June 30, 2004, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 5: **Estimated Liability on Closure and Postclosure of the Landfill** (continued)

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.

The estimated cost of closure and postclosure is based on what it would cost to perform all closure and postclosure care in June 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The Authority is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Authority has restricted assets of \$5,456,562 held for these purposes. Although total estimated closure and postclosure costs are \$19.7 million, only approximately \$4.1 million will be due upon closure. The remaining costs will be paid over a 30 year postclosure care period. The Authority expects that future inflation costs will be paid from interest earnings on these annual contributions. 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 closure and postclosure	\$ 19,951,100
Multiply by percentage of capacity used	<u>100%</u>
Estimated liability at June 30, 2004	<u>\$ 19,951,100</u>

Note 6: **Estimated Liability on Closure and Postclosure of the Quarry**

State laws and regulations (Surface Mining Reclamation Act) require the Authority to place a final cover on its quarry site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Authority reports these closure and postclosure care costs as an operating expense based on the quarry capacity used as of each balance sheet date. The \$183,237 reported as quarry closure and postclosure care liability at June 30, 2004, represents the amount estimated to date based on the use of 100 percent of the estimated capacity of the quarry. This amount is based on what it would cost to perform all closure and postclosure care in June 1999. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 6: **Estimated Liability on Closure and Postclosure of the Quarry** (continued)

Although total estimated closure and postclosure costs are \$183,237, only approximately \$114,387 will be due upon closure. The remaining costs will be paid over a 30 year postclosure care period.

Estimated costs for closure and postclosure	\$ 183,237
Multiply by percentage of capacity used	<u>100%</u>
Estimated liability at June 30, 2004	<u>\$ 183,237</u>

Note 7: **Economic Dependency**

The Authority has four major customers. Vallejo Garbage Service Co., Napa Valley Disposal Co., Napa Garbage Service Co., and American Canyon Disposal Service represent approximately 57 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. In prior audits, this percentage had only reflected waste that was delivered to the Authority's transfer station. There is another source of Authority waste which is directly hauled to the Keller Canyon Landfill by Vallejo Garbage Service Co. without handling at the transfer station.

Note 8: **Net Deficit**

The Authority has a net deficit at year end due to the unfunded liability for postclosure costs of the landfill. The rates charged for waste disposal will include a surcharge to pay for the annual postclosure costs for the next thirty years and will eliminate the deficit at the end of the thirty years. The bond indenture includes a provision requiring the rates to be increased if the Authority is not expected to be able to pay the postclosure costs with current rates.

Note 9: **Related Party Transactions**

During the fiscal year ended June 30, 2004, the Authority paid the County of Napa, a related party, \$221,333, of which \$48,337 was for Local Enforcement Agency fees and \$172,996 for legal, accounting and administrative services.

Note 10: **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.

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004

Note 11: **Subsequent Event**

In July of 2004, the Authority issued \$9,030,000 in bonds for the primary purpose of refunding the Authority's 1994 Revenue Bonds which were originally issued in March of 1994. Proceeds of the bonds will also be used to establish a reserve account for payment of the bonds and to pay cost of issuance. The net results of the 2004 Revenue Bond Refunding will be a reduction in annual debt service paid by the Authority.

OTHER REPORT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Napa-Vallejo Waste Management Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Napa-Vallejo Waste Management Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended for the information of the management and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

October 29, 2004
Roseville, California