NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

AUDIT REPORT

For the Fiscal Year Ended
June 30, 2010

DRAFT 09/30/10

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of
  the Governing Board
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, 2010, 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, 2010, 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 {DATE}, 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 Governing Board
Napa-Vallejo Waste Management Authority
Napa, California

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 accounting principles generally accepted in the United States of America. 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.

Roseville, California
{DATE}

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, 2010. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The Authority met its Debt Service Coverage Ratio in fiscal year 2009-2010.
- The Authority's fiscal year 2009-2010 operating and maintenance expenses are $9.9 million (not including closure and postclosure expenses and depreciation), a decrease from $10.3 million in fiscal year 2008-2009, or a decrease of 4%. The expenses reflect an overall decrease in general operating and maintenance costs caused by a reduction in inbound tonnage delivered to the Devlin Road Transfer Station and a revised operations and disposal contract.
- The Authority increased member rates from $58 to $60 per ton effective October 1, 2009, and increased non-member rates from $62 to $64 in August 2009. 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.
- The Authority continued to experience a reduction in material entering the transfer station as a result of the current economic conditions. A corresponding reduction in operating expenses also occurred since the Authority's major contract cost is based on volume. The reduction in operating expenses, while significant, may not be sufficient to maintain adequate cash flow and reserves in light of the reduction of material entering the transfer station. Therefore, the Authority's Board of Directors will continue to monitor revenues and expenses and consider rate increases if necessary to maintain reserves.

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.

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, liabilities exceeded assets by $947,308 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,

	2010	2009	Variance
Current assets	$ 3,468,341	$ 3,430,647	$ 37,694
Non-current assets	15,633,221	15,936,206	(302,985)
Total assets	19,101,562	19,366,853	(265,291)
Current liabilities	2,208,705	2,476,222	(267,517)
Long term liabilities	17,840,165	19,254,055	(1,413,890)
Total liabilities	20,048,870	21,730,277	(1,681,407)
Net assets:			
Invested in capital assets, net of related debt	11,376,456	10,725,251	651,205
Restricted	1,310,533	1,308,570	1,963
Unrestricted	(13,634,297)	(14,397,245)	762,948
Total net assets	$ (947,308)	$ (2,363,424)	$ 1,416,116

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

	2010	2009	Variance
Operating Revenues:			
Landfill/transfer station revenues	$ 11,302,541	$ 12,494,262	$ (1,191,721)
Gas royalties	65,503	63,314	2,189
Miscellaneous	94,283	114,811	(20,528)
Total operating revenues	11,462,327	12,672,387	(1,210,060)
Operating Expenses:			
Salaries and benefits	162,105	89,996	72,109
Services and supplies	9,759,492	10,177,094	(417,602)
Postclosure expenses	(409,700)	(219,300)	(190,400)
Depreciation	278,422	278,422	--
Total operating expenses	9,790,319	10,326,212	(535,893)
Operating income (loss)	1,672,008	2,346,175	(674,167)
Non-Operating Revenue (Expense):			
Interest income	12,623	40,081	(27,458)
Interest expense	(268,515)	(290,973)	22,458
Other non-operating revenue	--	12,660	(12,660)
Total non-operating revenue (expense)	(255,892)	(238,232)	(17,660)
Net income	1,416,116	2,107,943	(691,827)
Net assets (deficit) - Beginning of Year	(2,363,424)	(4,471,367)	2,107,943
Net assets (deficit) - End of Year	$ (947,308)	$ (2,363,424)	$ 1,416,116

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

- The Authority's total assets as of June 30, 2010, amount to $19.1 million, a decrease of $265,291 (or 1.4%) from the prior year. The majority of the decrease in total assets is due to decreased cash in the treasury.
- The Authority's total liabilities as of June 30, 2010, are $20 million, a decrease of $1,681,407 (or 7.7%) from the prior year. The decrease in total liabilities is the product of a decrease in year- end accounts payable, revenue bonds payable and a reduction in the estimated liability for postclosure.
- The Authority's total net assets as of June 30, 2010, are -$947,308, an increase of $1.4 million (or 60%) from the prior year. The increase in total net assets is due to the combination of increased cash in the treasury and a reduction of year-end accounts payable, revenue bonds payable and postclosure liabilities.

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. In addition, the Authority has a five year fiscal plan which includes anticipated capital improvements.

The Authority approved a capital improvement project for Fiscal Year 2009-10 to provide enhanced power via Pacific Gas and Electric Company at a projected expense of $123,600. This project will avoid the cost of providing temporary power to various environmental control systems at American Canyon Sanitary Landfill.

DEBT ADMINISTRATION

At June 30, 2010, the Authority's total long-term debt outstanding was $18.8 million as compared to $20.2 million in the prior year. This amount was comprised of $4.2 million of revenue bonds payable (net of unamortized discounts) and $14.6 million in estimated liability for closure and postclosure costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority experienced an 11.1% reduction in material received at their Devlin Road Transfer Station. The major cause of this reduction is the influence of the economy on the generation of waste, particularly construction and demolition materials. While there are indications that the economy is strengthening, the authority continues to closely monitor incoming tonnages at the transfer station and is reviewing strategies for attracting additional waste to the facility

The Authority Board adopted the fiscal year 2010-2011 budget based on the following economic factors:

- No increase to the tipping fees,
- Anticipated increased revenues from the solar ground lease and the recycling revenue sharing agreement with the City of Napa, and
- Tonnage is anticipated to remain at or near the same levels of fiscal year 2009-2010, therefore related expenditures should also remain at that same level.

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. 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
June 30, 2010

ASSETS

Current Assets:		
Cash in Treasury	$	1,163,434
Accounts receivable		896,074
Total Current Assets		2,059,508
Restricted Assets:		
Cash with fiscal agent - restricted		1,310,533
Deferred charges		98,300
Capital Assets:		
Land		977,749
Landfill		5,208,162
Quarry		956,000
Construction in progress		1,171,232
Structures and improvements (net of accumulated depreciation)		7,184,054
Donated assets (net of accumulated depreciation)		136,024
Total Net Capital Assets		15,633,221
Total Assets	$	19,101,562

LIABILITIES

Current Liabilities:		
Accounts payable	$	1,110,545
Accrued salaries and benefits		14,685
Interest payable		83,475
Current portion of revenue bonds payable		1,000,000
Total Current Liabilities		2,208,705
Non-Current Liabilities:		
Revenue bonds payable (net of unamortized premium)		3,256,765
Estimated liability for postclosure		14,583,400
Total Non-Current Liabilities		17,840,165
Total Liabilities		20,048,870

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt		11,376,456
Restricted for:		
Debt service		1,310,533
Unrestricted		(13,634,297)
Total Net Assets (Deficit)		(947,308)
Total Liabilities and Net Assets (Deficit)	$	19,101,562

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

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Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

OPERATING REVENUES	
Landfill/transfer station revenues	$ 11,302,541
Gas royalties	65,503
Recycling revenues	69,656
Miscellaneous	24,627
Total Operating Revenues	11,462,327
OPERATING EXPENSES	
Salaries and benefits	162,105
Insurance	117,487
Bond agent fees	2,500
Administration	124,771
Legal expenses	18,000
Contract services - landfill/transfer station operations	4,288,253
Transfer station disposal expenses	5,119,685
State and local fees	87,238
Office	1,059
Transportation	499
Postclosure expenses	(409,700)
Depreciation	278,422
Total Operating Expenses	9,790,319
Operating Income (Loss)	1,672,008
NON-OPERATING REVENUE (EXPENSE)	
Interest income	12,623
Interest expense	(268,515)
Total Non-Operating Revenue (Expense)	(255,892)
Net Income	1,416,116
Net Assets (Deficit) - Beginning of Year	(2,363,424)
Net Assets (Deficit) - End of Year	$ (947,308)

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, 2010

Cash Flows from Operating Activities:	
Receipts from customers	$ 11,476,833
Payments to employees	(151,754)
Payments to suppliers	(10,026,384)
Net Cash Provided by Operating Activities	1,298,695
Cash Flows from Capital and Related Financing Activities:	
Payment of principal	(954,190)
Purchase of capital assets	(21,094)
Interest paid	(259,260)
Net Cash Flows Used for Capital and Related Financing Activities	(1,234,544)
Cash Flows from Investing Activities:	
Interest income	12,623
Net Cash Provided by Investing Activities	12,623
Net increase (decrease) in cash and cash equivalents	76,774
Cash and Cash Equivalents - Beginning of Fiscal Year	2,397,193
Cash and Cash Equivalents - End of Fiscal Yeaı	$ 2,473,967
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:	
Cash and cash equivalents in current assets	1,163,434
Cash and cash equivalents in restricted assets	1,310,533
Total Cash and Cash Equivalents	$ 2,473,967
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:	
Operating income (loss)	$ 1,672,008
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	278,422
(Increase) decrease in assets:	
Accounts receivable	14,506
Increase (decrease) in liabilities:	
Accounts payable	(266,892)
Accrued salaries and benefits	10,351
Postclosure liability	(409,700)
Net Cash Provided (Used) for Operating Activitie	$ 1,298,695

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

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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 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.

Note 1: **<u>Summary of Significant Accounting Policies</u>** (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 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. **Deferred Charges**

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

E. **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.

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

E. **Capital Assets** (continued)

The estimated useful lives are as follows:

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

F. **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.

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 for unrestricted purposes only after the unrestricted resources are depleted.

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. The County of Napa's financial statements may be obtained by contacting the County of Napa'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, 2010, 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	407,533
Total Cash with Fiscal Agent		$ 1,310,533

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:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	Weighted Average Maturity (Years)
Cash with Fiscal Agent						
Money market mutual funds	Variable	On Demand	$ 1,310,533	$ 1,310,533	$ 1,310,533	--
Total			$ 1,310,533	$ 1,310,533	$ 1,310,533	--

At June 30, 2010, 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 purchased or received its property, plant, and equipment as part of the landfill acquisition. 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, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2010
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	1,195,795	21,094	--	(45,657)	1,171,232
Total capital assets, not being depreciated	8,337,706	21,094	--	(45,657)	8,313,143
Capital assets, being depreciated:					
Structures and improvements	10,960,723	--	--	--	10,960,723
Donated assets	196,073	--	--	--	196,073
Total capital assets, being depreciated	11,156,796	--	--	--	11,156,796
Less accumulated depreciation for:					
Structures and improvements	(3,503,149)	(273,520)	--	--	(3,776,669)
Donated assets	(55,147)	(4,902)	--	--	(60,049)
Total accumulated depreciation	(3,558,296)	(278,422)	--	--	(3,836,718)
Total capital assets, being depreciated, net	7,598,500	(278,422)	--	--	7,320,078
Total capital assets, net	$ 15,936,206	$ (257,328)	$ --	$ (45,657)	$ 15,633,221

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, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One
Bonds payable	$ 5,190,000	$ --	$ (950,000)	$ 4,240,000	$ 1,000,000
Unamortized premium	20,955	--	(4,190)	16,765	--
Liabilities	$ 5,210,955	$ --	$ (954,190)	$ 4,256,765	$ 1,000,000

As of June 30, 2010, annual debt service requirements to maturity are as follows:

Year Ending June 30	Bonds Payable Principal	Bonds Payable Interest
2011	$ 1,000,000	$ 222,600
2012	1,020,000	171,600
2013	1,080,000	117,540
2014	1,140,000	58,140
Subtotal	$ 4,240,000	$ 569,880
Premium	16,765	
Total	$ 4,256,765	

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.

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

The $14,583,400 reported as landfill postclosure care liability at June 30, 2010, 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.

The estimated cost of postclosure is based on what it would cost to perform all postclosure care as of June 30, 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

In 2007, the Authority completed the first year of its required 30 year postclosure care period. The remaining estimated postclosure costs are $14.6 million and will be paid over a 26 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	$ 14,583,400
Multiply by percentage of capacity used	100%
Estimated liability at June 30, 2010	$ 14,583,400

In June 2006, the Authority received final closure approval from the State. Therefore, the $14,583,400 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 67 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 7: **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 twenty-six years and will eliminate the deficit at the end of the twenty-six 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 8: **Related Party Transactions**

During the fiscal year ended June 30, 2010, the Authority paid the County of Napa, a related party, $135,832 for collections, legal, accounting and administrative services.

Note 9: **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 as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated {DATE}. 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 Napa-Vallejo Waste Management 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 Napa-Vallejo Waste Management 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 Napa-Vallejo Waste Management 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 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.

Roseville, California
{DATE}