

**UPPER VALLEY WASTE
MANAGEMENT AGENCY**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2007**

UPPER VALLEY WASTE MANAGEMENT AGENCY

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members
of the Board of Directors
Upper Valley Waste Management Agency
Napa, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Upper Valley Waste Management Agency (Agency), as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency'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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 Agency's internal control over financial reporting. According, 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 governmental activities and each major fund of the Agency, as of June 30, 2007, and the respective changes in financial position, thereof 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 February 4, 2008, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Members
of the Board of Directors
Upper Valley Waste Management Agency
Napa, California

The Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, as listed in the table of contents, are not a required part of the basic financial statements, but are 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.

BARTIG, BASLER & RAY, LLP
A Gallina LLP Company

A handwritten signature in black ink that reads "Bartig Basler & Ray, LLP". The signature is written in a cursive, flowing style.

Roseville, California
February 4, 2008

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

On September 29, 1992, the Upper Valley Waste Management Agency (Agency) was formed by the County of Napa, the City of St. Helena, the City of Calistoga and the Town of Yountville (hereinafter referred to collectively as "Members") as a joint powers entity to provide economical coordination of regional waste management services to the Members, including but not limited to uniform rate review and rate recommendations, acting as the regional agency for purposes of implementing the provisions of the California Integrated Waste Management Act, and the rate setting franchisor for solid waste handling services within the Agency's service area. The Agency is a public entity legally separate and apart from any of the Members.

As management of the Agency, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2007. Please read it in conjunction with the Agency's Financial Statements, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Statement of Net Assets and Governmental Fund Balance Sheet, and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance provide information about the activities of the Agency. The financial statements also include various footnote disclosures, which further describe the Agency's activities.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets and governmental fund balance sheet* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities and governmental fund revenues, expenditures and changes in fund balance* presents information showing how the Agency'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 the statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis (continued)
For the Fiscal Year Ended June 30, 2007

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government wide statements.

The Agency adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information (RSI)

RSI is presented concerning the Agency's General Fund budgetary schedule. The Agency adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Government-wide Financial Analysis

This is the fourth year that the Agency has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A)– for State and Local Governments. The Agency has provided comparative data.

Upper Valley Waste Management Agency Net Assets June 30, 2007

	<u>2007</u>	<u>2006</u>	Increase/ (Decrease)
Assets:			
Current assets	\$ 76,611	\$ 148,897	\$ (72,286)
Total assets	<u>76,611</u>	<u>148,897</u>	<u>(72,286)</u>
Liabilities:			
Current liabilities	6,050	17,835	(11,785)
Total liabilities	<u>6,050</u>	<u>17,835</u>	<u>(11,785)</u>
Net assets:			
Unrestricted	70,561	131,062	(60,501)
Total net assets	<u>\$ 70,561</u>	<u>\$ 131,062</u>	<u>\$ (60,501)</u>

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis (continued) For the Fiscal Year Ended June 30, 2007

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceed liabilities by \$70,561 as of June 30, 2007. The most significant portion of the Agency's net assets is from a surcharge on the tipping fee at Clover Flat Landfill (CFL), the disposal franchisee. This fee was initially set in 1992 by the County of Napa, on the Agency's behalf, at \$1.75 per ton on waste disposed. When the Agency became the franchisor in 1995, they continued the surcharge at that rate. Effective January 1, 2004, the surcharge was raised to \$3.75 per ton on material received at the landfill. Additional net assets for the year ending June 30, 2007, include an annual grant of \$25,000 from the State of California Department of Conservation primarily used to provide activities to encourage bottle and can recycling, a grant for \$82,000 from the State of California to encourage recycling at certain large venues, and \$2,778 in interest revenue.

Cash and investments are maintained in the County's cash and investment pool where interest earned on the Agency's balance is apportioned to the Agency.

The Agency's net assets decreased overall by approximately \$60,501 during the fiscal year ending June 30, 2007. This decrease in net assets is explained in the financial analysis of the Agency governmental fund below and is primarily a result of the timing of certain revenues and expenses related to the Large Venue Grant, consultant expenses incurred relating to the adoption of a revised rate methodology and franchise agreements for Upper Valley Disposal Service and Clover Flat Landfill.

Governmental Activities

The government-wide financial statement analysis presented on the following page represents an analysis of the Agency's governmental activities.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis (continued)
For the Fiscal Year Ended June 30, 2007

Upper Valley Waste Management Agency Statement of Activities For the Fiscal Year Ended June 30, 2007

	2007	2006	Variance	Percentage
Revenues:				
Program revenues:				
Landfill surcharge	\$ 131,494	\$ 212,127	\$ (80,633)	-38.0%
Intergovernmental	65,715	66,000	(285)	-0.4%
Total program revenues	197,209	278,127	(80,918)	-29.1%
General revenues:				
Interest	2,778	3,491	(713)	-20.4%
Other	127	3,928	(3,801)	-96.8%
Total general revenues	2,905	7,419	(4,514)	-60.8%
Total revenues	200,114	285,546	(85,432)	-29.9%
Expenses:				
Hazardous waste collection	36,723	24,953	(11,770)	-47.2%
Consulting charges	71,476	10,575	(60,901)	-575.9%
Administrative charges	79,988	89,176	9,188	10.3%
Publications legal/notices	1,886	2,809	923	32.9%
Insurance	6,550	6,450	(100)	-1.6%
Other costs	63,992	48,030	(15,962)	-33.2%
Total expenses	260,615	181,993	(78,622)	-43.2%
Changes in net assets	(60,501)	103,553	\$ (164,054)	-158.4%
Net assets - beginning	131,062	27,509		
Net assets - ending	\$ 70,561	\$ 131,062		

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis (continued)
For the Fiscal Year Ended June 30, 2007

Financial Analysis of the Agency's Governmental Fund

As noted earlier, fund accounting is used by the Agency to ensure and demonstrate compliance with finance-related legal requirements.

For the fiscal year ending June 30, 2007, the Agency reported an ending fund balance of \$70,561, a decrease of \$60,501, from the prior year. This decrease in fund balance was caused primarily by the timing of certain revenues and expenses related to the Large Venue Grant, as well as consultant expenses incurred related to adopting a revised rate methodology and franchise agreements for Upper Valley Disposal Service and Clover Flat Landfill.

In October 2000, the Agency Board set a goal to achieve minimum fund balance at \$35,000. This goal has been achieved.

Total revenues decreased from \$285,546 to \$200,114 for the fiscal year ending June 30, 2007. This decrease was due to the timing of landfill surcharge and Large Venue Grant revenues.

Total expenditures increased from \$181,993 to \$260,615 from the prior fiscal year. This increase was due to increased consulting costs.

Fund Budgetary Highlight

Total revenues were under final budget by \$46,386, or (18.8%), and total expenditures were under budget by \$34,659, or 11.7%. Total revenues were under budget due to the timing of landfill surcharge payments. Total expenditures were under budget because of the reduced costs of hazardous waste collection events.

Capital Assets and Debt Administration

Capital Assets

For the fiscal year ending June 30, 2007, the Agency did not have any capital assets.

Debt Administration

For the fiscal year ending June 30, 2007, the Agency did not have any long-term obligations outstanding.

Economic Factors and Next Year's Budget

The Agency is committed to maintaining the minimum reserve and controlling discretionary expenditures while providing services that benefit the ratepayers. The Agency is committed to reduce the amount of waste currently being land filled and instead keep valuable materials and resources within the economic cycle.

The following economic factors were considered in preparing the Agency's financial plan for fiscal year 2007-2008:

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis (continued)
For the Fiscal Year Ended June 30, 2007

- Continued revenue from the landfill surcharge and the Department of Conservation and final payment from Large Venue Grant.
- Continuation of at least one hazardous waste collection event.
- Reduced need (and expense) from outside consultants.

Requests for Information

This audit report is designed to provide a general overview of the Upper Valley Waste Management Agency finances for all those interested. The County of Napa provides certain management and administrative functions, including all financial management and accounting. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Upper Valley Waste Management Agency, 1195 Third Street, Suite 101, Napa California, 94559.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2007

	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash and investments	\$ 50,494	\$ --	\$ 50,494
Accounts receivable	26,117	--	26,117
Total Assets	\$ 76,611	\$ --	\$ 76,611
<u>LIABILITIES</u>			
Accounts payable	\$ 6,050	\$ --	\$ 6,050
Total Liabilities	6,050	--	6,050
<u>FUND BALANCE / NET ASSETS</u>			
Fund Balance:			
Reserved for encumbrances	9,347	(9,347)	--
Unreserved:			
Undesignated	61,214	(61,214)	--
Total Fund Balance	70,561	(70,561)	--
Total Liabilities and Fund Balance	\$ 76,611		
Net Assets:			
Unrestricted		70,561	70,561
Total Net Assets		70,561	70,561
Total Liabilities and Fund Balance / Net Assets		\$ --	\$ 76,611

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

UPPER VALLEY WASTE MANAGEMENT AGENCY

Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2007

	<u>General</u> <u>Fund</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Activities</u>
<u>REVENUES</u>			
Landfill surcharge	\$ 131,494	\$ --	\$ 131,494
Intergovernmental	65,715	--	65,715
Interest	2,778	--	2,778
Miscellaneous	127	--	127
	<hr/>		<hr/>
Total Revenues	200,114	--	200,114
	<hr/>		<hr/>
<u>EXPENDITURES/EXPENSES</u>			
Household waste collection	36,723	--	36,723
Consulting charges	71,476	--	71,476
Administrative charges	79,988	--	79,988
Publications legal/notices	1,886	--	1,886
Insurance	6,550	--	6,550
Other costs	63,992	--	63,992
	<hr/>		<hr/>
Total Expenditures/Expenses	260,615	--	260,615
	<hr/>		<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(60,501)	60,501	--
Change in Net Assets	--	(60,501)	(60,501)
<u>FUND BALANCE / NET ASSETS</u>			
Beginning of Fiscal Year	131,062	--	131,062
	<hr/>		<hr/>
End of Fiscal Year	\$ 70,561	\$ --	\$ 70,561
	<hr/>		<hr/>

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

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
For the Year Ended June 30, 2007

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Upper Valley Waste Management Agency (Agency) was established September 29, 1992, to provide economical coordination of regional waste management services. The Agency consists of four members; the County of Napa (County), the Cities of Calistoga and St. Helena, and the Town of Yountville. Each member appoints a representative(s) to the governing board of the Agency. The County appoints two representatives and each city and town appoints one representative.

The Agency includes all activities (operations of its administrative staff and Agency officers) considered to be a part of the Agency. The Agency 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 Agency is financially accountable for other entities. The Agency 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 Agency is not aware of any entity that would be financially accountable for the Agency that would result in the Agency being considered a component unit of that entity.

B. Basis of Presentation and Accounting

In this report, the government-wide statements and the fund statements for the Agency are presented on the same page with the adjustments column showing the differences.

Government-Wide Statements

The statement of net assets and statement of activities display information about the primary government (Agency). These statements include the financial activities of the overall Agency.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
For the Year Ended June 30, 2007

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

B. Basis of Presentation and Accounting (continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources method and the modified accrual basis of accounting. This method recognizes revenues in the accounting period in which they become measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues available if they are collected within sixty days of the end of the current fiscal period. Significant revenues that have been treated as “susceptible” to accrual under the modified accrual basis of accounting include taxes, charges, interest and intergovernmental revenues. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) value in exchange, include sales taxes, grants, entitlements and donations. On a modified accrual basis, revenues from sales taxes are recognized when the underlying transactions take place and have met the availability criteria. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Agency reports the following major governmental fund:

- The General Fund is the Agency’s primary operating fund. It accounts for all financial resources of the general government.

C. Accounts Receivable

The Agency believes its accounts receivable to be fully collectible and, accordingly, no allowance is necessary.

D. Net Assets/Fund Balances

Net Assets

The government-wide activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted. The Agency has only unrestricted funds.

- *Unrestricted Net Assets* – This category represents net assets of the Agency, not restricted for any project or other purpose.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
For the Year Ended June 30, 2007

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

D. **Net Assets/Fund Balances** (continued)

Fund Balances

Reservations of Fund Balances are used to indicate that a portion of fund balance is not available for expenditures or is legally segregated for a specific future use.

Specific reservations of the fund balance accounts are summarized below:

Reserved for Encumbrances was created to reflect outstanding contractual obligations for which goods and services have not been received.

E. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: **Cash and Investments**

Cash at June 30, 2007, consisted of the following:

Cash in County Treasury	\$ <u>50,494</u>
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The Agency 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 94559. The Napa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
For the Year Ended June 30, 2007

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

Required disclosures for the Agency's deposit and investment risks at June 30, 2007, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	573 days

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value. The Agency has no deposit or investment policy that addresses a specific type of risk.

Note 3: **Related Party Transactions**

During the year ended June 30, 2007, the Agency paid the County of Napa, a related party, \$73,304 for administrative, legal and accounting services.

Note 4: **Risk Management**

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Insurance to cover risk of loss for the Agency is secured through commercial carriers.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER VALLEY WASTE MANAGEMENT AGENCY

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Landfill surcharge	\$ 170,000	\$ 153,000	\$ 131,494	\$ (21,506)
Intergovernmental	25,000	88,000	65,715	(22,285)
Interest	3,500	3,500	2,778	(722)
Other	43,000	2,000	127	(1,873)
	<u>241,500</u>	<u>246,500</u>	<u>200,114</u>	<u>(46,386)</u>
<u>EXPENDITURES</u>				
Household waste collection	65,000	45,900	36,723	9,177
Consulting charges	45,000	53,000	71,476	(18,476)
Administrative charges	75,250	75,250	79,988	(4,738)
Publications legal/notices	2,000	2,000	1,886	114
Insurance	6,500	6,500	6,550	(50)
Other costs	67,750	112,624	63,992	48,632
	<u>261,500</u>	<u>295,274</u>	<u>260,615</u>	<u>34,659</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,000)	(48,774)	(60,501)	(11,727)
<u>FUND BALANCE</u>				
Beginning of Fiscal Year	<u>131,062</u>	<u>131,062</u>	<u>131,062</u>	<u>--</u>
End of Fiscal Year	<u>\$ 111,062</u>	<u>\$ 82,288</u>	<u>\$ 70,561</u>	<u>\$ (11,727)</u>

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Required Supplementary Information
For the Year Ended June 30, 2007

BUDGET AND BUDGETARY ACCOUNTING

The Agency prepares and legally adopts a final budget on or before August 30th of each fiscal year. The Agency operation, commencing July 1st, is governed by the proposed budget, adopted by the Board of Directors in June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Agency resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Agency.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent years and included in the subsequent years' budgets. Unencumbered appropriations lapse at year-end.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level.

The budget is adopted on a basis consistent with generally accepted accounting principles.

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
Upper Valley Waste Management Agency
Napa, California

We have audited the financial statements of Upper Valley Waste Management Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated February 4, 2008. 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 Upper Valley Waste Management Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Upper Valley Waste Management Agency of Napa County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The significant deficiency is described in the accompanying schedule of findings and responses as item 2007-1.

To the Honorable Members of the
Board of Directors
Upper Valley Waste Management Agency
Napa, California

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Valley Waste Management Agency'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 for the information of the Board of Directors, management of the Agency and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, LLP
A Gallina LLP Company



Roseville, California
February 4, 2008

UPPER VALLEY WASTE MANAGEMENT AGENCY

Schedule of Findings and Responses As of June 30, 2007

2007-1: ACCOUNTS RECEIVABLE

Criteria

During its year-end closing process, the Agency should establish and enforce policies and procedures to ensure that year-end accruals are properly identified and recorded for all account balances, including revenues and receivables.

Condition

During the audit, we noted one material landfill surcharge for service provided during the fiscal year ended June 30, 2007, that was not properly accrued at year-end. The total amount of the related audit adjustment was \$14,117.

Cause

Subsequent to year-end, the Agency failed to identify significant landfill revenues that should have been accrued during the year-end closing process.

Effect or Potential Effect

By not properly accounting for landfill surcharge revenue received subsequent to year-end, the Agency is significantly understating its accounts receivable at the end of the year.

Recommendation

We recommend that the Agency enforce its policy that all significant deposits made subsequent to year-end be reviewed to determine the correct period for revenue recognition. By enforcing its policy, the Agency will improve its year-end closing process for identifying the appropriate year-end accruals and reduce the risk of material misstatement in their annual financial statements.

Management Response

We concur with the audit recommendation and will enforce our policy to review all subsequent year-end deposits to ensure they are recorded in the correct period for revenue recognition.