

**UPPER VALLEY WASTE
MANAGEMENT AGENCY**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2010**

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 basic financial statements of the Upper Valley Waste Management Agency (Agency), as of and for the year ended June 30, 2010, 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. 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 Agency, as of June 30, 2010, and the changes in its financial position 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 September 24, 2010, 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.

Gallina LLP

Roseville, California
September 24, 2010

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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, 2010. 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 For the Fiscal Year Ended June 30, 2010

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 Agency presents 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 for the years ended June 30, 2010 and June 30, 2009.

Net Assets

Condensed Statement of Net Assets As of June 30,

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Current assets	\$ 50,382	\$ 46,528	\$ 3,854
Total assets	<u>50,382</u>	<u>46,528</u>	<u>3,854</u>
Current liabilities	14,088	10,941	3,147
Total liabilities	<u>14,088</u>	<u>10,941</u>	<u>3,147</u>
Unrestricted	36,294	35,587	707
Total net assets	<u>\$ 36,294</u>	<u>\$ 35,587</u>	<u>\$ 707</u>

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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 \$36,294 as of June 30, 2010. The most significant portion of the Agency's net assets is cash surplus 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.

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.

Changes in Net Assets

The Agency's net assets increased overall by approximately \$707 during the fiscal year ending June 30, 2010. This increase in net assets is primarily a result of reduced expenses for disposal of household hazardous waste (HHW) and reduced recycling programs balanced against similarly reduced income from the landfill surcharge due to reduced disposal volumes.

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
For the Fiscal Year Ended June 30, 2010

Condensed Statement of Activities For the Fiscal Year Ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Revenues:			
Landfill surcharge	\$ 112,861	\$ 126,576	\$ (13,715)
Intergovernmental	--	25,000	(25,000)
Interest	486	1,946	(1,460)
Total revenues	<u>113,347</u>	<u>153,522</u>	<u>(40,175)</u>
Expenses:			
Administrative charges	68,452	62,886	(5,566)
Insurance	6,094	5,800	(294)
Publications legal/notices	1,022	799	(223)
Accounting and auditing services	14,861	18,961	4,100
Legal services	2,425	5,181	2,756
Household hazardous waste disposal	12,327	45,355	33,028
Recycling consulting charges	--	5,664	5,664
Recycling program costs	7,459	30,960	23,501
Total expenses	<u>112,640</u>	<u>175,606</u>	<u>62,966</u>
Changes in net assets	707	(22,084)	22,791
Net assets - Beginning of fiscal year	<u>35,587</u>	<u>57,671</u>	<u>(22,084)</u>
Net assets - End of fiscal year	<u>\$ 36,294</u>	<u>\$ 35,587</u>	<u>\$ 707</u>

FUND FINANCIAL ANALYSIS

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, 2010, the Agency reported an ending fund balance of \$36,294, an increase of \$707, from the prior year. This increase in fund balance was caused primarily by reduced expenses for disposal of household hazardous waste (HHW) and reduced recycling programs balanced against similarly reduced income from the landfill surcharge due to reduced disposal volumes.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Reduced disposal volumes are a result of the current recession, which has greatly reduced construction activity and other consumption. The decreased costs are the result of cancelling the annual HHW collection event previously held in Calistoga each November, and intentionally scaling back on recycling programs so that overall expenses would remain consistent with available revenues.

In October 2000, the Agency Board set a goal to achieve minimum fund balance at \$35,000. This goal has been met and the Agency intends to control costs as needed to maintain this fund balance.

Total revenues decreased from \$153,522 to \$113,347 for the fiscal year ending June 30, 2010. This decrease was due to the deferral of the State grant for the recycling program as well as lower than expected revenue from landfill surcharges due to reduced volume of waste at the landfill.

Total expenditures decreased from \$175,606 to \$112,640 from the prior fiscal year. This decrease was due to a reduced recycling program caused by the State's inability to provide the funding as well as reductions in costs for household hazardous waste disposal due to lower volumes of collections.

BUDGETARY HIGHLIGHTS

Total revenues were under final budget by \$39,128, or 26%, and total expenditures were under budget by \$39,835, also 26%. The variances are direct correlations of lower than expected revenue from landfill surcharges due to reduced volume of waste at the landfill and corresponding decreases in HHW and recycling expenditures. Furthermore, the State grant of \$25,000 was not received due to State budgeting shortfalls, which reduces both the revenues and expenses for the recycling program.

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 2010-2011:

- Continued revenue (though at a somewhat reduced level) from the landfill surcharge;
- Department of Conservation (DOC) funds that would have normally been appropriated and spent in 2009-2010 were received instead in July of 2010, with direction from the DOC that such funds be spent in 2010-2011. These funds are

UPPER VALLEY WASTE MANAGEMENT AGENCY

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

budgeted and will spent accordingly. The County was also informed by the DOC that 2010-2011 funds would be forwarded shortly. However, given the uncertainty of the State Budget, no Department of Conservation funds will be expended until the check is actually received from the state. While this could impact the Agency's recycling mission, it is the only prudent action until the funds are actually confirmed as being received.

- Discontinuation of all household hazardous waste collection events.
- Reduced need (and expense) from outside consultants.

DEBT ADMINISTRATION

For the fiscal year ending June 30, 2010, the Agency did not have any long-term obligations outstanding.

CAPITAL ASSESTS

For the fiscal year ending June 30, 2010, the Agency did not have any capital assets.

CONTACTING THE AGENCY

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.

NAPA UPPER VALLEY WASTE MANAGEMENT AUTHORITY

Statement of Net Assets
June 30, 2010

ASSETS

Current Assets:

Cash and investments	\$	38,688
Accounts receivable		<u>11,694</u>

Total Assets	\$	<u><u>50,382</u></u>
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LIABILITIES

Current Liabilities:

Accounts payable	\$	4,088
Deferred revenue		<u>10,000</u>

Total Liabilities		<u>14,088</u>
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NET ASSETS

Unrestricted		<u>36,294</u>
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Total Net Assets		<u>36,294</u>
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Total Liabilities and Net Assets	\$	<u><u>50,382</u></u>
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The accompanying notes are an integral part of these financial statements.

NAPA UPPER VALLEY WASTE MANAGEMENT AUTHORITY

Statement of Activities For the Fiscal Year Ended June 30, 2010

EXPENSES

Administrative charges	\$	68,452
Insurance		6,094
Publications legal/notices		1,022
Accounting and auditing services		14,861
Legal services		2,425
Household hazardous waste disposal		12,327
Recycling program costs		<u>7,459</u>
Net Program Expense		<u>112,640</u>

PROGRAM REVENUES

Landfill surcharge		<u>112,861</u>
Total Program Revenues		<u>112,861</u>
Net Program Revenue		<u>221</u>

GENERAL REVENUES (EXPENSES)

Interest income		<u>486</u>
Total General Revenues (Expenses)		<u>486</u>
Change in Net Assets		707
Net Assets - Beginning of Year		<u>35,587</u>
Net Assets - End of Year	\$	<u><u>36,294</u></u>

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

NAPA UPPER VALLEY WASTE MANAGEMENT AUTHORITY

Balance Sheet
Governmental Funds
June 30, 2010

ASSETS

Cash and investments	\$	38,688
Accounts receivable		<u>11,694</u>
Total Assets	\$	<u><u>50,382</u></u>

LIABILITIES

Accounts payable	\$	4,088
Deferred revenue		<u>10,000</u>
Total Liabilities		<u>14,088</u>

FUND BALANCE

Fund Balance:		
Unreserved:		<u>36,294</u>
Total Fund Balance		<u>36,294</u>
Total Liabilities and Fund Balance	\$	<u><u>50,382</u></u>

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

NAPA UPPER VALLEY WASTE MANAGEMENT AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2010

REVENUES

Landfill surcharge	\$ 112,861
Interest	486
Total Revenues	<u>113,347</u>

EXPENDITURES

Administrative charges	\$ 68,452
Insurance	6,094
Publications legal/notices	1,022
Accounting and auditing services	14,861
Legal services	2,425
Household hazardous waste disposal	12,327
Recycling program costs	7,459
Total Expenditures	<u>112,640</u>

Net Change in Fund Balance	707
Fund Balance - Beginning of Year	<u>35,587</u>
Fund Balance - End of Year	<u>\$ 36,294</u>

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

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
June 30, 2010

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
June 30, 2010

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 Balance**

Net Assets

Equity is classified as net assets in the government-wide statements. 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
June 30, 2010

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

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

Fund Balance

Equity is classified as fund balance in the fund statements.

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, 2010, consisted of the following:

Cash in County Treasury	<u>\$ 38,688</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.

Required disclosures for the Agency'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. The Agency has no deposit or investment policy that addresses a specific type of risk.

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Financial Statements
June 30, 2010

Note 3: **Related Party Transactions**

During the year ended June 30, 2010, the Agency paid the County of Napa, a related party, \$11,114 for internal audit services, \$397 for accounting services, \$2,425 for legal services, \$5,370 for Local Enforcement Agency services, and \$63,082 for Environmental Management 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 Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Landfill surcharge	\$ 125,000	\$ 125,000	\$ 112,861	\$ (12,139)
Intergovernmental	25,000	25,000	--	(25,000)
Interest	2,300	2,300	486	(1,814)
Other	175	175	--	(175)
Total Revenues	<u>152,475</u>	<u>152,475</u>	<u>113,347</u>	<u>(39,128)</u>
<u>EXPENDITURES</u>				
Administrative charges	82,250	82,250	68,452	13,798
Insurance	6,094	6,094	6,094	--
Publications legal/notices	1,000	1,000	1,022	(22)
Accounting and auditing services	--	--	14,861	(14,861)
Legal services	--	--	2,425	(2,425)
Household hazardous waste disposal	27,206	27,206	12,327	14,879
Recycling program costs	35,925	35,925	7,459	28,466
Total Expenditures	<u>152,475</u>	<u>152,475</u>	<u>112,640</u>	<u>39,835</u>
Net Change in Fund Balance	<u>\$ --</u>	<u>\$ --</u>	707	<u>\$ 707</u>
Fund Balance - Beginning of the Year			<u>35,587</u>	
Fund Balance - End of the Year			<u>\$ 36,294</u>	

UPPER VALLEY WASTE MANAGEMENT AGENCY

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

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 are 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. For the year ended June 30, 2010, expenditures exceed appropriations in the Publications legal/notices category by \$22, the Accounting and Auditing Services category by \$14, 861, and the Legal Services category by \$2,425.

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 (Agency) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 the Agency'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 Agency'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
Upper Valley Waste Management Agency
Napa, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Gallina LLP

Roseville, California
September 24, 2010