

**NAPA-VALLEJO WASTE  
MANAGEMENT AUTHORITY**

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2014**

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# NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Napa-Vallejo Waste Management Authority (Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

**Other Matters**

*Required Supplementary Information*

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenses by Activity is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenses by Activity is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenses of Activity is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 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 results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Roseville, California  
October 27, 2014



# NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

## Management's Discussion and Analysis

This section of the Napa-Vallejo Waste Management Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the Authority's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

- The Authority's fiscal year 2013-2014 operating and maintenance expenses are \$9.5 million (not including closure and post-closure expenses and depreciation), a decrease from \$10.1 million in fiscal year 2012-2013, or a decrease of 1%. The decrease can be attributed to a new contract, effective January 1, 2014, with Potrero Hill Landfill for disposal of Authority waste. Potrero Hills is located in Solano County and is closer than the former disposal site in Contra Costa County, which results in lower transportation costs. Tipping fees at Potrero Hills are also lower than those at the former disposal site.
- The Authority increased member rates from \$62 to \$63 per ton effective October 1, 2013, and increased non-member rates from \$66 to \$67 on July 1, 2013. Member franchise haulers represent about 80% of the waste received at the Authority's facility. Increases were designed to reduce the reliance on rate stabilization funds and increase reserves. These rates remained in effect throughout the fiscal year. Under the terms of the Board's rate resolution, rates charged at the transfer station increase by \$1.00 per year. The most recent increases were July 1, 2014 for non-members and October 1, 2014 for member franchise haulers.
- The Devlin Road Transfer Station received 173,221 tons in fiscal year 2013-14 compared to 172,377 tons in fiscal year 2012-13. The 0.4 percent increase in tonnage is considered insignificant, indicating that waste flow may be stabilizing.
- Effective January 1, 2014, disposal costs decreased from \$26.54 to \$21.69 per ton for disposal of municipal solid waste and from \$14.54 to \$14.00 per ton for alternative daily cover material. This change resulted in a net decrease in disposal costs of approximately \$350,000 during the second half of the fiscal year.
- The Authority is debt free and has instituted pay-as-you go budgeting for capital projects in order to reduce future reliance on debt financing.

### 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 position* presents information on all Authority assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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.

## NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

### Management's Discussion and Analysis (Continued)

**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 position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$4,162,396 at the close of the most recent fiscal year. Further detail is provided in the tables below:

#### Condensed Statement of Net Position As of June 30,

	2014	2013	Variance
Current assets	\$ 3,665,556	\$ 2,610,802	\$ 1,054,754
Non-current assets	14,748,611	13,880,377	868,234
<b>Total Assets</b>	<u>18,414,167</u>	<u>16,491,179</u>	<u>1,922,988</u>
Current liabilities	1,102,371	892,394	(209,977)
Long-term liabilities	13,149,400	13,544,700	395,300
<b>Total Liabilities</b>	<u>14,251,771</u>	<u>14,437,094</u>	<u>185,323</u>
<b>Net Position</b>			
Net investment in capital assets	14,748,611	13,880,377	868,234
Unrestricted	(10,586,215)	(11,826,292)	1,240,077
<b>Total Net Position</b>	<u>\$ 4,162,396</u>	<u>\$ 2,054,085</u>	<u>\$ 2,108,311</u>

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

- The Authority's total assets as of June 30, 2014, amount to \$18.4 million, an increase of \$1.9 million from the prior year. The majority of the increase is due to an increase in cash due to increased rates and the intentional build-up of capital and operating reserves, as well as a \$1.2 million increase in construction in progress.
- The Authority's total liabilities as of June 30, 2014, are \$14.2 million, a decrease of \$185,000 from the prior year. The decrease in liabilities is due to the annual reduction in post closure liability for the American Canyon Landfill.
- The Authority's total net position as of June 30, 2014, is \$4.1 million, an increase of \$2.1 million from the prior year. The increase in total net position is primarily due to the reduction in the post closure liability and the planned increase in capital and operating reserves.

## NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

### Management's Discussion and Analysis (Continued)

#### Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2014

	2014	2013	Variance
<b>Operating Revenues</b>			
Landfill/transfer station revenues	\$11,801,863	\$11,472,855	\$ 329,008
Recycling revenues	31,458	25,514	5,944
Gas royalties	-	19,288	(19,288)
Miscellaneous	3,786	33,056	(29,270)
<b>Total Operating Revenues</b>	<u>11,837,107</u>	<u>11,550,713</u>	<u>286,394</u>
<b>Operating Expenses</b>			
Salaries and benefits	194,451	186,892	(7,559)
Services and supplies	9,258,017	9,622,052	364,035
Depreciation	285,865	285,865	-
<b>Total Operating Expenses</b>	<u>9,738,333</u>	<u>10,094,809</u>	<u>356,476</u>
<b>Operating Income (Loss)</b>	<u>2,098,774</u>	<u>1,455,904</u>	<u>642,870</u>
<b>Non-Operating Revenue (Expense)</b>			
Interest income	9,537	6,617	2,920
Interest expense	-	(114,229)	114,229
Loss on disposal of asset	-	(1,150,137)	1,150,137
<b>Total Non-Operating Revenue (Expense)</b>	<u>9,537</u>	<u>(1,257,749)</u>	<u>1,267,286</u>
<b>Change in Net Position</b>	2,108,311	198,155	1,910,156
<b>Net Position - Beginning of Year</b>	<u>2,054,085</u>	<u>1,855,930</u>	<u>198,155</u>
<b>Net Position - End of Year</b>	<u>\$ 4,162,396</u>	<u>\$ 2,054,085</u>	<u>\$ 2,108,311</u>

Operating revenues increased primarily due to increases in rates, while operating expenses decreased mainly due to the change in the disposal site, resulting in more efficient operations.

#### **CAPITAL ASSETS**

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

The Rehabilitation Master Plan for the Devlin Road Transfer Station was completed in March, 2012. The Authority has initiated work on two major rehabilitation projects that were identified in the Rehabilitation Master Plan: replacement of the tipping floor and rebuilding the entrance road. Construction of the tipping floor project began in December 2013 and was completed on September 11, 2014. Construction of the Phase 1 Pavement Rehabilitation Project began in May 2014 and is expected to be completed in October 2014.

During the prior fiscal year, the Authority Board terminated the microturbine power generating project due to unresolved equipment failures. Capital assets having a book value of \$1,150,137 have therefore been written off.

## **NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

### **Management's Discussion and Analysis (Continued)**

#### **DEBT ADMINISTRATION**

In November of 2012, the Authority Board authorized early redemption of the Authority's remaining 2004 Revenue Refunding Bonds. The outstanding balance at the time was \$2,220,000. Early redemption achieved interest savings of approximately \$58,100 over the two remaining years on the bonds, and relieved the Authority of its debt service reserve requirement.

After the early retirement of the Authority bonds, at June 30, 2014, the remaining long-term debt outstanding is \$13.1 million which comprised of the estimated liability for closure and postclosure costs.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Authority Board adopted the fiscal year 2014-2015 budget based on the following economic factors:

- A \$1.00 per ton per year increase to the tipping fees, and
- No increase in tonnage.

#### **CONTACTING THE AUTHORITY**

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

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

NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Statement of Net Position  
June 30, 2014

**Assets**

Current Assets:

Cash in treasury	\$ 2,501,995
Accounts receivable	1,163,561
Total Current Assets	<u>3,665,556</u>

Capital Assets:

Land	7,141,911
Construction in progress	1,243,319
Structures and improvements (net of accumulated depreciation)	6,160,026
Equipment (net of accumulated depreciation)	203,355
Total Net Capital Assets	<u>14,748,611</u>

<b>Total Assets</b>	<u>18,414,167</u>
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**Liabilities**

Current Liabilities:

Accounts payable	1,090,226
Accrued salaries and benefits	12,145
Total Current Liabilities	<u>1,102,371</u>

Non-Current Liabilities:

Estimated liability for postclosure	13,149,400
Total Non-Current Liabilities	<u>13,149,400</u>

<b>Total Liabilities</b>	<u>14,251,771</u>
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**Net Position**

Net investment in capital assets	14,748,611
Unrestricted	<u>(10,586,215)</u>

<b>Total Net Position</b>	<u>\$ 4,162,396</u>
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The accompanying notes are an integral part of the financial statements.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2014

<b>Operating Revenues</b>	
Landfill/transfer station revenues	\$ 11,801,863
Recycling revenues	31,458
Miscellaneous	3,786
<b>Total Operating Revenues</b>	<u>11,837,107</u>
<b>Operating Expenses</b>	
Administration	345,144
American Canyon sanitary landfill, net of \$395,300 change in postclosure liability	68,097
Devlin Road transfer station	4,805,755
Disposal	3,848,808
Household hazardous waste	384,664
Depreciation	285,865
<b>Total Operating Expenses</b>	<u>9,738,333</u>
<b>Operating Income</b>	<u>2,098,774</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	9,537
<b>Total Non-Operating Revenue (Expense)</b>	<u>9,537</u>
<b>Change in Net Position</b>	2,108,311
<b>Net Position - Beginning of Year</b>	<u>2,054,085</u>
<b>Net Position - End of Year</b>	<u>\$ 4,162,396</u>

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, 2014

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 11,532,435
Payments to employees	134,890
Payments to suppliers	<u>(9,772,681)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>1,894,644</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	<u>(1,154,099)</u>
<b>Net Cash Flows Used for Capital and Related Financing Activities</b>	<u>(1,154,099)</u>
<b>Cash Flows from Investing Activities</b>	
Interest income	<u>9,537</u>
<b>Net Cash Provided by Investing Activities</b>	<u>9,537</u>
<b>Net increase in cash and cash equivalents</b>	750,082
<b>Cash and Cash Equivalents - Beginning of Fiscal Year</b>	<u>1,751,913</u>
<b>Cash and Cash Equivalents - End of Fiscal Year</b>	<u><u>\$ 2,501,995</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used)</b>	
<b>By Operating Activities:</b>	
Operating income	\$ 2,098,774
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	285,865
(Increase) decrease in assets:	
Accounts receivable	(304,672)
Increase (decrease) in liabilities:	
Accounts payable	208,249
Accrued salaries and benefits	1,728
Postclosure liability	<u>(395,300)</u>
<b>Net Cash Provided for Operating Activities</b>	<u><u>\$ 1,894,644</u></u>

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

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# NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2014

## NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Napa-Vallejo Waste Management Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

### **A. Reporting Entity**

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

### **B. Basis of Presentation and Accounting**

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

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

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Notes to Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Cash and Cash Equivalents**

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

**D. Receivables**

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

**E. Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

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

The estimated useful lives are as follows:

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

**F. Net Position**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. 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 position consists of net position 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 position consists of all other net position not included in the above categories.

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

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Notes to Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Required disclosures for the Authority's deposit and investment risks at June 30, 2014, 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.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Notes to Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2014

**NOTE 3: CAPITAL ASSETS**

The Authority's assets consist of property for the American Canyon Sanitary Landfill and property, plant and equipment for the Devlin Road Transfer Station. The capital assets purchased are recorded at cost. The landfill and the quarry represent items that were acquired with the landfill and are valued at fair market value as of the date acquired. Capital assets activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 7,141,911	\$ --	\$ --	\$ 7,141,911
Construction in progress	89,220	1,154,099	--	1,243,319
Total capital assets, not being depreciated	<u>7,231,131</u>	<u>1,154,099</u>	<u>--</u>	<u>8,385,230</u>
Capital assets, being depreciated:				
Structures and improvements	11,318,079	--	--	11,318,079
Equipment	14,563	--	--	14,563
Total capital assets, being depreciated	<u>11,332,642</u>	<u>--</u>	<u>--</u>	<u>11,332,642</u>
Less accumulated depreciation for:				
Structures and improvements	(4,679,027)	(282,953)	--	(4,961,980)
Equipment	(4,369)	(2,912)	--	(7,281)
Total accumulated depreciation	<u>(4,683,396)</u>	<u>(285,865)</u>	<u>--</u>	<u>(4,969,261)</u>
Total capital assets, being depreciated, net	<u>6,649,246</u>	<u>(285,865)</u>	<u>--</u>	<u>6,363,381</u>
Total capital assets, net	<u>\$ 13,880,377</u>	<u>\$ 868,234</u>	<u>\$ --</u>	<u>\$ 14,748,611</u>

**NOTE 4: ESTIMATED LIABILITY ON POSTCLOSURE OF THE LANDFILL**

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

The \$13,149,400 reported as landfill postclosure care liability at June 30, 2014, 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, 2014. The 22 remaining years of postclosure costs are estimated at \$13.1 million.

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Notes to Financial Statements (Continued)  
For the Fiscal Year Ended June 30, 2014

**NOTE 4: ESTIMATED LIABILITY ON POSTCLOSURE OF THE LANDFILL (CONTINUED)**

In 2007, the Authority completed the first year of its required 30 year postclosure care period. The remaining estimated postclosure costs are \$13.1 million and will be paid over a 22 year postclosure care period. The Authority expects that future inflation costs will be paid from interest earnings. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future users.

Estimated costs for postclosure	\$13,149,400
Multiply by percentage of capacity used	<u>100%</u>
Estimated liability at June 30, 2014	<u>\$13,149,400</u>

In June 2006, the Authority received final closure approval from the State. Therefore, the \$13,149,400 estimated liability represents only the remaining postclosure care liability.

**NOTE 5: 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 80 percent of the Authority's revenue. These companies have contracts with the individual Cities and County for providing waste disposal services. The respective jurisdictions have contracted with the Authority to dispose of all waste generated within their jurisdiction.

**NOTE 6: RELATED PARTY TRANSACTIONS**

During the fiscal year ended June 30, 2014, the Authority paid Napa County, a related party, \$111,450 for collections, legal, information technology, accounting, auditing and administrative services.

**NOTE 7: 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.

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## **SUPPLEMENTARY INFORMATION**

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**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Schedule of Expenses by Activity  
For the Fiscal Year Ended June 30, 2014

	<u>Administration</u>	<u>Am Can Sanitary Landfill</u>	<u>Devlin Road Transfer Station</u>	<u>Disposal</u>
<b>Expenditures</b>				
Salaries and benefits	\$ 133,162	\$ --	\$ --	\$ --
Administration services	11,048	--	14,400	--
Accounting/auditing services	16,976	--	51,026	--
Information technology services	15,852	--	--	--
Legal services	18,000	--	--	--
Medical/laboratory services (testing)	--	--	107	--
Security services	--	--	--	--
Other professional services	--	68,097	4,676,317	3,848,808
Insurance - premiums	138,951	--	--	--
Communications/telephone	--	--	--	--
Publications/legal notices	903	--	--	--
Bank charges	4,711			
Training/conference expenses	2,279			
Permits/license fees	--	--	63,860	--
Business travel/mileage	96	--	--	--
Office supplies	496	--	--	--
Printing and Binding			45	
Memberships/certifications	270	--	--	--
Rents and Leases - Building	2,400			
Utilities - electric	--	--	--	--
Maintenance supplies	--	--	--	--
<b>Total Expenses</b>	<u>\$ 345,144</u>	<u>\$ 68,097</u> *	<u>\$ 4,805,755</u>	<u>\$ 3,848,808</u>

\* In addition to the \$68,907 in expenses reported by American Canyon Sanitary Landfill, the Landfill incurred cash outlays of \$395,300, which reduced the postclosure liability balance.

continued

**NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY**

Schedule of Expenses by Activity  
For the Fiscal Year Ended June 30, 2014

	Household Hazardous Waste	Total
<b>Expenditures</b>		
Salaries and benefits	\$ --	\$ 133,162
Administration services	--	25,448
Accounting/auditing services	--	68,002
Information technology services	--	15,852
Legal services	--	18,000
Medical/laboratory services (testing)	--	107
Security services	600	600
Other professional services	368,906	8,962,128
Insurance - premiums	--	138,951
Communications/telephone	696	696
Publications/legal notices	--	903
Bank charges	--	4,711
Training/conference expenses	--	2,279
Permits/license fees	1,031	64,891
Business travel/mileage	--	96
Office supplies	--	496
Printing and Binding	5,660	5,705
Memberships/certifications	2,000	2,270
Rents and Leases - Building	--	2,400
Utilities - electric	2,640	2,640
Maintenance supplies	3,131	3,131
<b>Total Expenses</b>	<u>\$ 384,664</u>	<u>\$ 9,452,468</u>

## **OTHER REPORT**

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**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, in accordance with the 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, the financial statements of the Napa-Vallejo Waste Management Authority (Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 27, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California  
October 27, 2014