

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

(A Component Unit of the County of Sacramento)

Sacramento, California

Independent Auditor's Report,
Management's Discussion and Analysis,
Basic Financial Statements, and
Required Supplementary Information

For the Fiscal Years Ended June 30, 2019 and 2018



Certified
Public
Accountants

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
(A Component Unit of the County of Sacramento)
For the Fiscal Years Ended June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Sacramento Regional Solid Waste Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Sacramento Regional Solid Waste Authority (Authority), a component unit of the County of Sacramento, California (County), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 entity'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 entity'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 governmental activities and the General Fund of the Authority, as of June 30, 2019, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Financial Statements

The basic financial statements of the Authority as of June 30, 2018, were audited by other auditors whose report dated May 24, 2019 expressed unmodified opinions on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2020, on our consideration of the 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 solely 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 effectiveness of the Authority's 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.

Macias Gini & O'Connell LLP

Sacramento, California
July 16, 2020

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018
(Amounts Expressed in Thousands)

This section of the Sacramento Regional Solid Waste Authority (SWA) annual financial statements presents a management's discussion and analysis of the SWA's financial performance during the fiscal years ended June 30, 2019 and June 30, 2018. Please read it in conjunction with the SWA's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2019 and June 30, 2018, the SWA's governmental activities and general fund reported total Net Position and Fund Balance of \$5,289 and \$3,335, respectively.
- The increase in Net Position and Fund Balance for fiscal year 2018-19 and fiscal year 2017-18 of \$1,955 and \$986, respectively, was attributable to the payments the SWA received from franchise haulers exceeding operating expenses and member distributions for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the SWA's basic financial statements. The SWA's basic financial statements have three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the SWA's finances in a manner similar to private-sector businesses.

The *Statements of Net Position* present information on all SWA 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 as to whether the financial position of the SWA is improving or deteriorating.

The *Statements of Activities* show changes in net position during the 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.

The government-wide financial statements can be found on pages 8 through 9 of this report.

Fund Financial Statements are groupings of related accounts that are used to control resources that have been segregated for specific activities or objectives.

The SWA uses fund accounting to ensure and demonstrate finance-related legal compliance. However, the SWA only has one *governmental fund*, the General Fund.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Management's Discussion and Analysis (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

(Amounts Expressed in Thousands)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds 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.

Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the SWA's near-term financing decisions.

The governmental funds financial statements can be found on pages 10 through 11 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 12 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, increases or decreases in net position may serve as an indicator as to whether the financial position of the SWA is improving or deteriorating.

	<u>2019</u>	Increase/ (Decrease) <u>Percentage</u>	<u>2018</u>	Increase/ (Decrease) <u>Percentage</u>	<u>2017</u>
Assets:					
Current assets	<u>\$ 5,807</u>	<u>49.3%</u>	<u>\$ 3,890</u>	<u>40.2%</u>	<u>\$ 2,774</u>
Liabilities:					
Current and other liabilities	<u>518</u>	<u>-6.7%</u>	<u>555</u>	<u>30.3%</u>	<u>426</u>
Net Position:					
Unrestricted	<u>\$ 5,289</u>	<u>58.6%</u>	<u>\$ 3,335</u>	<u>42.0%</u>	<u>\$ 2,348</u>

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Management's Discussion and Analysis (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

(Amounts Expressed in Thousands)

At the end of fiscal years 2019 and 2018, the SWA reported a balance of \$5,289 and \$3,335 in *net position*, respectively. The increase in net position was primarily due to franchise haulers mandated payments exceeding operating expenses and member distributions.

The following table indicates the changes in net position for the SWA's governmental activities:

	Condensed Statements of Activities Government Activities Fiscal Year Ending June 30,				
	<u>2019</u>	Increase/ (Decrease) Percentage	<u>2018</u>	Increase/ (Decrease) Percentage	<u>2017</u>
Revenues					
Program revenues:					
Franchise fees	\$ 6,507	6.4%	\$ 6,113	20.0%	\$ 5,095
General revenues:					
Interest and other income	<u>318</u>	<u>154.4%</u>	<u>125</u>	<u>92.3%</u>	<u>65</u>
Total revenues	<u>6,825</u>	<u>9.4%</u>	<u>6,238</u>	<u>20.9%</u>	<u>5,160</u>
Expenses					
Distribution to members	2,591	-24.6%	3,439	9.3%	3,145
Administrative costs	2,040	26.2%	1,616	31.6%	1,228
Commercial area street collection service	<u>240</u>	<u>22.4%</u>	<u>196</u>	<u>88.5%</u>	<u>104</u>
Total expenses	<u>4,871</u>	<u>-7.2%</u>	<u>5,251</u>	<u>17.3%</u>	<u>4,477</u>
Change in net position	1,954	98.0%	987	44.5%	683
Net position, beginning of year	<u>3,335</u>	<u>42.0%</u>	<u>2,348</u>	<u>41.0%</u>	<u>1,665</u>
Net position, end of year	<u>\$ 5,289</u>	<u>58.6%</u>	<u>\$ 3,335</u>	<u>42.0%</u>	<u>\$ 2,348</u>

Franchise fees remained relatively flat in 2019, while interest and other income increased by \$193. The increase was primarily due to \$142 of penalties related to one large hauler taking diversion credit for source-separated food waste collection only to ultimately be disposed of at a landfill due to lack of acceptable third-party food waste processing capacity in the region. The additional \$51 was due to higher distribution of interest by the County investment pool. Franchise fees increased \$1,018 in fiscal year 2018, primarily due to the increase in revenues reported by the three largest franchised haulers, mostly derived through disposal service charge increases passed onto their customers. Interest and other income increased in 2018 by \$60, due to penalties of \$36, primarily related to one large hauler's non-compliance with Ordinance 25, and interest of \$24, due to higher distribution of interest by the County investment pool.

The SWA budget is developed based upon projected revenues anticipated to be received in the next fiscal year. The Distribution to members are based upon these revenue projections less anticipated expenditures.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
 Management's Discussion and Analysis (Continued)
 For the Fiscal Years Ended June 30, 2019 and 2018
 (Amounts Expressed in Thousands)

Administrative costs increased \$424 in fiscal year 2019 due primarily to the SWA Board's desire to designate \$2,064 of available funds for the siting of a future organics processing facility. Administrative costs increased \$388 in 2018 due to efforts focused on reducing and responding to illegal dumping as well as the continued efforts to promote compliance with State waste diversion initiatives.

Commercial area street collection service increased \$44 in 2019 based on a full year of single stream recycling service added to the municipal solid waste collection program compared with only partial year single stream recycling service in 2018. Commercial area street collection service increased \$92 in 2018 based on a full year of service collecting municipal solid waste compared with only partial year service in 2017.

FINANCIAL ANALYSIS OF THE SOLID WASTE AUTHORITY'S FUNDS

As noted earlier, the SWA uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the SWA's general fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the SWA's financing activities. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2019 and 2018, the SWA's general fund reported an unassigned fund balance of \$5,289 and \$3,335, respectively.

The following table presents the amounts of revenues from various sources:

Revenues Classified by Source					
General Fund					
	<u>FY2019</u>		<u>FY2018</u>		<u>FY2017</u>
		Increase/ (Decrease)		Increase/ (Decrease)	
<u>Revenues by Source</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>
Franchise fees	\$ 6,507	6.4%	\$ 6,113	20.0%	\$ 5,095
Fines, forfeitures and penalties	221	179.7%	79	83.7%	43
Interest	97	115.6%	45	114.3%	21
Other	-	-100.0%	1	0.0%	1
Total	<u>\$ 6,825</u>	<u>9.4%</u>	<u>\$ 6,238</u>	<u>20.9%</u>	<u>\$ 5,160</u>

Franchise fees remained relatively flat in 2019, while interest and other income increased by \$193. The increase in penalties of \$142, primarily relates to one large hauler taking diversion credit for source-separated food waste collection only to ultimately be disposed of at a landfill due to lack of acceptable third-party food waste processing capacity in the region. Interest increased by \$52, due to higher distribution of interest by the County investment pool. Franchise fees increased \$1,018 in fiscal year 2018, primarily due to the increase in revenues reported by the three largest franchised haulers, mostly derived through disposal service charge increases passed onto their customers. Interest and other income increased in 2018 by \$60, due to penalties of \$36, primarily related to one large hauler's non-compliance with Ordinance 25, and interest of \$24, due to higher distribution of interest by the County investment pool.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
 Management's Discussion and Analysis (Continued)
 For the Fiscal Years Ended June 30, 2019 and 2018
 (Amounts Expressed in Thousands)

The following table presents the amounts of expenditures by object class:

<u>Expenditures</u>	<u>FY2019</u>		<u>FY2018</u>		<u>FY2017</u>
	<u>Amount</u>	Increase/ (Decrease) <u>Percentage</u>	<u>Amount</u>	Increase/ (Decrease) <u>Percentage</u>	<u>Amount</u>
Distribution to members	\$ 2,591	-24.6%	\$ 3,439	9.3%	\$ 3,145
Administrative costs	2,040	26.2%	1,616	31.6%	1,228
Commercial area street collection services	<u>240</u>	<u>22.4%</u>	<u>196</u>	<u>88.5%</u>	<u>104</u>
Total	<u>\$ 4,871</u>	<u>-7.2%</u>	<u>\$ 5,251</u>	<u>17.3%</u>	<u>\$ 4,477</u>

The SWA budget is developed based upon projected revenues anticipated to be received in the next fiscal year. The Distribution to members are based upon these revenue projections less anticipated expenditures.

Administrative costs increased \$424 in fiscal year 2019 due primarily to the SWA Board's desire to designate \$2,064 of available funds for the siting of a future organics processing facility. Administrative costs increased \$388 in 2018 due to efforts focused on reducing and responding to illegal dumping as well as the continued efforts to promote compliance with State waste diversion initiatives.

Commercial area street collection service increased \$44 in 2019 based on a full year of single stream recycling service added to the municipal solid waste collection program compared with only partial year single stream recycling service in 2018. Commercial area street collection service increased \$92 in 2018 based on a full year of service collecting municipal solid waste compared with only partial year service in 2017.

General Fund Budgetary Highlights

The fiscal year 2018-2019 Proposed Budget adopted in May of 2018 did not provide a year-end fund balance carry over. Upon closing fiscal year ending June 30, 2018, through higher than anticipated revenues and lower than anticipated expenditures, there was a fund balance carry over in the amount of \$3,334. The budget was amended with the Final Budget adopted by the SWA's Board of Directors on September 13, 2018, increasing administration and program costs by \$563, with the balance of \$2,064 used to establish a reserve fund for the potential siting of an organics processing facility.

The fiscal year 2018-2019 Final Budgeted Administrative and Commercial area street collection service costs were higher than actual by \$1,417 primarily given that the associated programs remained in the early stages of development at year-end.

Economic Factors and Next Year's Budget

The fiscal year 2018-19 Final Budget was adopted by the SWA's Board of Directors on September 13, 2018 increasing Administration and Program costs by \$563 and establishing a \$2,064 reserve. These changes were made possible primarily through higher than anticipated revenues and lower than anticipated expenditures experienced in fiscal year 2018-19.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Management's Discussion and Analysis (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

(Amounts Expressed in Thousands)

Requests For Information

This financial report is designed to provide a general overview of the SWA finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tapa Banda, Chief Financial and Administrative Officer, Department of Waste Management and Recycling, 10863 Gold Center Drive, Rancho Cordova, CA 95670, or at BandaM@saccounty.net.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Statements of Net Position - Government Activities

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and investments	\$ 4,957,960	\$ 2,942,780
Accounts receivable	848,796	946,701
	<hr/>	<hr/>
Total Assets	5,806,756	3,889,481
	<hr/>	<hr/>
LIABILITIES:		
Accounts payable and accrued expenses	190,338	160,528
Due to other governments	320,337	387,416
Deposits from others	6,892	7,000
	<hr/>	<hr/>
Total Liabilities	517,567	554,944
	<hr/>	<hr/>
NET POSITION:		
Unrestricted	\$ 5,289,189	\$ 3,334,537
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See accompanying notes to the basic financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Statements of Net Activities - Government Activities

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Program revenues:		
Franchise fees	\$ 6,728,648	\$ 6,112,992
	<hr/>	<hr/>
General revenues:		
Interest and other income	96,914	124,647
Total revenues	<u>6,825,562</u>	<u>6,237,639</u>
Expenses:		
Distributions to members	2,591,200	3,438,877
Administrative costs	2,040,221	1,615,978
Commercial Area Street Collection Service	239,489	196,515
Total expenses	<u>4,870,910</u>	<u>5,251,370</u>
Change in net position	1,954,652	986,269
Net position, beginning of year	<u>3,334,537</u>	<u>2,348,268</u>
Net position, end of year	<u><u>\$ 5,289,189</u></u>	<u><u>\$ 3,334,537</u></u>

See accompanying notes to the basic financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Balance Sheets

General Fund

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and investments	\$ 4,957,960	\$ 2,942,780
Accounts receivable	848,796	946,701
Total Assets	<u>\$ 5,806,756</u>	<u>\$ 3,889,481</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 190,338	\$ 160,528
Due to other governments	320,337	387,416
Deposits from others	6,892	7,000
Total Liabilities	<u>517,567</u>	<u>554,944</u>
FUND BALANCES:		
Unassigned	<u>5,289,189</u>	<u>3,334,537</u>
Total Liabilities and Fund Balance	<u>\$ 5,806,756</u>	<u>\$ 3,889,481</u>

See accompanying notes to the basic financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Balance
General Fund
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Franchise fees	\$ 6,507,197	\$ 6,112,992
Fines, forfeitures and penalties	221,451	79,663
Interest	96,914	44,984
Other	-	-
Total revenues	6,825,562	6,237,639
EXPENDITURES:		
Current:		
Distributions to members	2,591,200	3,438,877
Administrative costs	2,040,221	1,615,978
Commercial Area Street Collection Service	239,489	196,515
Total expenditures	4,870,910	5,251,370
Changes in Fund Balances	1,954,652	986,269
Fund Balance, beginning of year	3,334,537	2,348,268
Fund Balance, end of year	\$ 5,289,189	\$ 3,334,537

See accompanying notes to the basic financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorized Legislation and Organization

The Sacramento Regional Solid Waste Authority (SWA), formed in December 1992 pursuant to Section 6500 of the California State Government Code and the provisions of a Joint Exercise of Powers Agreement, is a political subdivision of the State of California. The SWA is a jointly governed organization under Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No.14 and No.34*. The SWA is treated as a blended component unit of the County of Sacramento (County) due to the County of Board Supervisors having majority representation on the SWA Board of Directors (Board). The SWA also provides a financial benefit or burden to the County. Parties to this agreement are the County and City of Sacramento. The SWA was formed to coordinate the responsibilities of the solid waste, recycling and disposal needs in the Sacramento area. The SWA is funded by franchise fees and governed by a Board of Directors consisting of seven elected officials representing the City of Sacramento and the unincorporated area of Sacramento County. Representation of the Board by the City and the County is determined by the respective populations which beginning in 1995 and every 5 years thereafter is adjusted so that each member has a representative for every 130,000 population.

Basis of Presentation

Government-wide Financial Statements

The statements of net position and statements of activities display information about the Authority.

The statements of activities presents administrative costs and member distributions with administrative costs being expenses that are specifically associated with administration and enforcement efforts associated with SWA regional solid waste functions, while member distributions represent the proportional share of budgeted net position split amongst the member governments. The split is based on the proportional actual revenue of the prior year, net of expenses projected for the current year.

Program revenues are made up of a 10% franchise fee. This fee is applied to commercial solid waste revenues of franchised commercial solid waste haulers operating within the boundaries of the City of Sacramento as well as the unincorporated area of the County of Sacramento, and are intended to meet the operational requirements of the SWA. Revenues that are not classified as program revenues, including interest income, are presented instead as general revenues.

When both restricted and unrestricted resources are available, restricted resources are used first, then unrestricted resources as needed.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provides information about the SWA's general fund. The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the SWA.

Basis of Accounting

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. Non-exchange transactions, in which the SWA gives (or receives) value without directly receiving (or giving) equal value in exchange, include franchise fees, penalties, grants and contributions. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The SWA has elected to consider revenues measurable and available when their receipt occurs within one hundred and twenty days after the end of the accounting period.

Fund Balance

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the SWA's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the SWA's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Only the Board has the authority to assign unassigned fund balance amounts where the SWA's intent is for those amounts to be used for specific purposes.

The Board of Directors, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a resolution. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use through the same type of formal action taken to establish the commitment.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board action to commit fund balance needs to occur within the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

Cash and Investments

Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of Sacramento (County) has custody of all cash for the SWA. The SWA's share of the pooled cash account is separately accounted for and interest earned, net of related expenses, is apportioned at the end of each quarter based upon the relationship of its daily cash balance to the total of the pooled account.

Fair Value Measurement

The SWA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 2 – CASH AND INVESTMENTS

As discussed in Note 1, the SWA's cash and investments are held in the County Treasurer's pool. The County Treasurer's pool is not rated by credit rating agencies. At June 30, 2019 and 2018 the SWA's cash and investments held in the County Treasurer's pool totaled \$4,957,960 and \$2,942,780, respectively. Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County's Comprehensive Annual Financial Report (CAFR). The SWA has not formally adopted an investment policy that addresses any of the risks previously noted. The County's CAFR can be found at <https://finance.saccounty.net>.

Fair Value Measurements

SWA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2019, and June 30, 2018, SWA held no individual investments. All funds are invested in the County Treasurer's Investment Pool.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. SWA's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, SWA's proportionate share of investments in the County Treasurer's Investment Pool at June 30, 2019 of \$4,957,960 and June 30, 2018 of \$2,942,780 are uncategorized inputs not defined as a Level 1, Level 2, or Level 3 input.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are recorded at their gross value and, where appropriate, are reduced by the portion that is considered uncollectible. Accounts receivable consists primarily of franchise fee revenue earned but not paid as of year-end. Franchise fee revenue is based on a 10% charge applied to the Franchisee reported commercial solid waste collections within the SWA region and is due and payable to the SWA on the first day of the second month immediately following the month in which collections services were provided, subject to audit. Management believes its accounts receivable to be fully collectible and, accordingly, no allowance for doubtful accounts is necessary.

NOTE 4 – DUE TO OTHER GOVERNMENTS

Due to other governments is comprised of year end member distributions to the City of Sacramento. For the years ended June 30, 2019 and 2018, due to other governments is comprised of the final member distribution to the City of Sacramento in the amount of \$320,337 and \$387,416, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

The SWA uses the County departments for administrative services such as ordinance enforcement and development as well as accounting, treasury and clerical work. Expenditures paid to the County during the fiscal years ended June 30, 2019 and 2018 were \$2,040,221 and \$1,615,978, respectively. Distributions to the County during the fiscal years ended June 30, 2019 and 2018 were \$1,309,852 and \$1,741,103, respectively.

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS

The GASB releases new accounting and financial reporting standards, any of which may have a significant impact on the SWA's financial reporting process. Future new standards which may impact the SWA are included on the following pages:

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2017, GASB issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In August 2018, GASB issued Statement No. 90, *Major Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, effective for fiscal years beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for fiscal years beginning after December 15, 2020. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, effective for fiscal years beginning after June 15, 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, effective for fiscal years beginning after June 15, 2020. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

replacement of an IBOR. The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for fiscal years beginning after June 15, 2020. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Solid Waste Authority has not determined the effect, if any, on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

NOTE 7 – GOING CONCERN

On April 23, 2019, the Sacramento County Board of Supervisors adopted resolution 2019-0277, declaring its intent to withdraw from the SWA effective July 1, 2021, consistent with Section 17 of the JPA agreement. The resolution was presented to the SWA Board on May 9, 2019. The following is a summary of tasks associated with the termination of the JPA Agreement and dissolution of the SWA.

- Review and evaluation of programs and contracts to be terminated or assigned to each jurisdiction.
- Development and adoption of new commercial solid waste ordinances by both the County and the City.
- Preparation of an asset and liability distribution schedule to determine the allocation of said assets and liabilities upon SWA dissolution.
- Development of a possible agreement between the City and County for continued joint management of a construction and demolition materials certification program.
- All franchisees to execute new franchise agreements with the County and the City prior to the termination of the JPA agreement.
- City to establish an administrative staff (hired staff or consultants) to manage and operate the City's commercial solid waste program upon termination of the JPA Agreement.
- City to establish a commercial franchise fee revenue collection and reporting system.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Notes to the Basic Financial Statements (Continued)

For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 8 – SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared Coronavirus (also known as COVID-19) a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. Management believes the Authority is taking appropriate actions to mitigate the negative impact, however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end are still developing.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2019

	Budget Original	Budget Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Franchise fees	\$ 5,700,000	\$ 5,700,000	\$ 6,507,197	\$ 807,197
Fines, forfeitures and penalties	15,000	15,000	221,451	206,451
Interest	10,000	10,000	96,914	86,914
	<u>5,725,000</u>	<u>5,725,000</u>	<u>6,825,562</u>	<u>1,100,562</u>
EXPENDITURES:				
Current:				
Distributions to members:				
City of Sacramento	1,281,348	1,281,348	1,281,348	-
County of Sacramento	1,309,852	1,309,852	1,309,852	-
Administrative costs	2,744,800	3,307,800	2,040,221	1,267,579
Commercial area street collection service	389,000	389,000	239,489	149,511
	<u>5,725,000</u>	<u>6,288,000</u>	<u>4,870,910</u>	<u>1,417,090</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (563,000)</u>	<u>1,954,652</u>	<u>\$ 2,517,652</u>
FUND BALANCE, July 1, 2018			3,334,537	
FUND BALANCE, June 30, 2019			<u>\$ 5,289,189</u>	

See accompanying note to the required supplementary information

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Franchise fees	\$ 4,700,000	\$ 5,000,000	\$ 6,112,992	\$ 1,112,992
Fines, forfeitures and penalties	5,500	25,000	79,663	54,663
Interest	4,500	10,000	44,984	34,984
	<u>4,710,000</u>	<u>5,035,000</u>	<u>6,237,639</u>	<u>1,202,639</u>
EXPENDITURES:				
Current:				
Distributions to members:				
City of Sacramento	1,191,230	1,697,774	1,697,774	-
County of Sacramento	1,221,570	1,741,103	1,741,103	-
Administrative costs	2,095,200	2,595,200	1,615,978	979,222
Commercial area street collection service	202,000	324,000	196,515	127,485
	<u>4,710,000</u>	<u>6,358,077</u>	<u>5,251,370</u>	<u>1,106,707</u>
NET CHANGE IN FUND				
BALANCE	<u>\$ -</u>	<u>\$ (1,323,077)</u>	986,269	<u>\$ 2,309,346</u>
FUND BALANCE, July 1, 2017			2,348,268	
FUND BALANCE, June 30, 2018			<u>\$ 3,334,537</u>	

See accompanying notes to the basic financial statements

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

Note to Required Supplementary Information
For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 1: BUDGET AND BUDGETARY ACCOUNTING

The SWA prepares an original budget in May preceding the budget year. Commencing July 1st, the SWA is governed by the original budget. Once the year is closed and a full fiscal year of franchisee revenue reporting is available, a final budget is adopted in September of the budget year. This approach allows for better revenue projections and to revise City and County revenue distributions for a final budget recommendation.

The SWA budget is developed based upon projected revenues anticipated to be received in the next fiscal year. The distributions to the City and County are based upon these revenue projections less anticipated expenditures.

The budgetary controls are exercised at the object level.

After the budget is approved, modifications can only be made after consideration and approval by the SWA Board of Directors. 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 SWA Board.

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 Board of Directors
Sacramento Regional Solid Waste Authority
Sacramento, 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 governmental activities and the General Fund of the Sacramento Regional Solid Waste Authority (Authority), a component unit of the County of Sacramento, California (County), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 16, 2020.

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 entity'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California
July 16, 2020