

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY

(A Component Unit of the County of Sacramento)

Sacramento, California

Independent Auditors' Report,
Management's Discussion and Analysis,
Basic Financial Statements,
Required Supplementary Information, and Other Reports

For the Fiscal Years Ended June 30, 2017 and 2016

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
For the Fiscal Years Ended June 30, 2017 and 2016

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' 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, as of and for the years ended June 30, 2017 and 2016, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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, 2017 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 on pages 3-7 and 19-20, 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 May 17, 2018, 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 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.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California
May 17, 2018

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 and 2016
(AMOUNTS EXPRESSED IN THOUSANDS)

This section of Sacramento Regional Solid Waste Authority annual financial statements presents a management's discussion and analysis of the Solid Waste Authority's financial performance during the years ended June 30, 2017 and June 30, 2016. Please read it in conjunction with the Solid Waste Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2017 and June 30, 2016 the Solid Waste Authority's governmental activities and general fund reported total Net Position and Fund Balance of \$2,348 and \$1,665 respectively.
- The increase in Fund Balance for fiscal year 2016-17 and fiscal year 2015-16 of \$683 and \$205, respectively, was attributable to the payments the Solid Waste Authority 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 Solid Waste Authority's basic financial statements. The Solid Waste Authority's basic financial statements are comprised of 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 Solid Waste Authority's finances in a manner similar to private-sector businesses.

The *Statement of Net Position* presents information on all Solid Waste 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 as to whether the financial position of the Solid Waste Authority is improving or deteriorating. The Solid Waste Authority distributes all surplus net position to its member agencies.

The *Statement of Activities* shows 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 Solid Waste Authority uses fund accounting to ensure and demonstrate finance-related legal compliance. However, the Solid Waste Authority only has one *governmental fund*, the General Fund.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 Solid Waste Authority'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 Solid Waste Authority is improving or deteriorating. The current direction of the Solid Waste Authority board has been to distribute all available funds to the member agencies.

**Statement of Net Position
Government Activities
June 30,**

	<u>2017</u>	<u>Percentage</u>	<u>2016</u>	<u>Percentage</u>	<u>2015</u>
		Increase/ (Decrease)		Increase/ (Decrease)	
Assets					
Current assets	\$ <u>2,774</u>	<u>28.7%</u>	\$ <u>2,155</u>	<u>10.1%</u>	\$ <u>1,958</u>
Liabilities					
Current and other liabilities	<u>426</u>	<u>-13.1%</u>	<u>490</u>	<u>-1.6%</u>	<u>498</u>
Net Position					
Unrestricted	\$ <u>2,348</u>	<u>41.0%</u>	\$ <u>1,665</u>	<u>14.0%</u>	\$ <u>1,460</u>

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 and 2016
(AMOUNTS EXPRESSED IN THOUSANDS)

At the end of fiscal years 2017 and 2016, the Solid Waste Authority reported a balance of \$2,348 and \$1,665 in *net position*, respectively. The increase in net position is primarily due to Franchise Haulers mandated payments exceeding operating expenses and member distributions.

The following table indicates the changes in net position for the Solid Waste Authority's governmental activities:

Statements of Activities					
Government Activities					
Year Ending June 30,					
	<u>2017</u>	Increase/ (Decrease) <u>Percentage</u>	<u>2016</u>	Increase/ (Decrease) <u>Percentage</u>	<u>2015</u>
Revenues					
Program revenues					
Franchise Fees	\$ 5,095	5.6%	\$ 4,823	5.8%	\$ 4,558
General revenues					
Interest and other income	<u>65</u>	<u>282.4%</u>	<u>17</u>	<u>-83.7%</u>	<u>104</u>
Total revenues	<u>5,160</u>	<u>6.6%</u>	<u>4,840</u>	<u>3.8%</u>	<u>4,662</u>
Expenses					
Distribution to members	3,145	-16.0%	3,743	-7.0%	4,025
Administrative Costs	1,228	37.7%	892	44.6%	617
Commercial Area Street Collection Service	<u>104</u>	<u>100.0%</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>
Total expenses	<u>4,477</u>	<u>-3.4%</u>	<u>4,635</u>	<u>-0.2%</u>	<u>4,642</u>
Change in net position	683	-233.2%	205	925.0%	20
Net position, beginning of year	<u>1,665</u>	<u>-14.0%</u>	<u>1,460</u>	<u>1.4%</u>	<u>1,440</u>
Net position, end of year	<u>\$ 2,348</u>	<u>41.0%</u>	<u>\$ 1,665</u>	<u>14.0%</u>	<u>\$ 1,460</u>

While total revenue remained relatively flat in 2017, the increase in Interest and other income was due primarily to a single large hauler incurring a \$17 late payment penalty as well as a single smaller hauler's non-compliance with Ordinance No. 25, incurring \$14 in associated penalties. Interest increased in 2017 by \$17 due to higher distribution of interest by the County investment pool.

Distribution to members decreased \$598 and \$282 in 2017 and 2016, respectively, due to higher anticipated administrative costs. Administrative costs increased \$336 and \$275 in 2017 and 2016, respectively, due to efforts focused on meeting State waste diversion initiatives. Commercial Area Street Collection Service is a newly implemented service focused on high traffic pedestrian areas of the City of Sacramento.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 and 2016
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FINANCIAL ANALYSIS OF THE SOLID WASTE AUTHORITY'S FUNDS

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

Governmental funds. The focus of the Solid Waste Authority's general fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Solid Waste Authority'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, 2017 and 2016, the Solid Waste Authority's general fund reported an unassigned fund balance of \$2,348 and \$1,665, respectively.

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

Revenues Classified by Source					
General Fund					
	<u>FY2017</u>		<u>FY2016</u>		<u>FY2015</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	\$ 5,095	5.6%	\$4,823	5.8%	\$4,558
Fines, forfeitures and penalties	43	258.3%	12	-87.6%	97
Interest	21	425.0%	4	0.0%	4
Other	<u>1</u>	<u>0.0%</u>	<u>1</u>	<u>-66.7%</u>	<u>3</u>
Total	<u>\$ 5,160</u>	<u>6.6%</u>	<u>\$4,840</u>	<u>3.8%</u>	<u>\$4,662</u>

Franchise fees increased modestly in 2017 based on the improving economy. Fines, forfeitures and penalties increased in 2017 due to a single large hauler incurring a \$17 late payment penalty as well as a single smaller hauler's non-compliance with Ordinance No. 25, incurring \$14 in associated penalties. Interest increased in 2017 by \$17 due to higher distribution of interest by the County investment pool.

The following table on the next page presents the amounts of expenditures by object class.

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MANAGEMENT’S DISCUSSION AND ANALYSIS
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(AMOUNTS EXPRESSED IN THOUSANDS)

<u>Expenditures</u>	<u>FY2017</u>		<u>FY2016</u>		<u>FY2015</u>
	<u>Amount</u>	Increase/ (Decrease) <u>Percentage</u>	<u>Amount</u>	Increase/ (Decrease) <u>Percentage</u>	<u>Amount</u>
Distribution to members	\$ 3,145	-16.0%	\$ 3,743	-7.0%	\$ 4,025
Administrative costs	1,228	37.7%	892	44.6%	617
Commercial Area Street Collection Service	104	100.0%	-	0.0%	-
Total	<u>\$ 4,477</u>	<u>-3.4%</u>	<u>\$ 4,635</u>	<u>-0.2%</u>	<u>\$ 4,642</u>

Distribution to members decreased \$598 and \$282 in 2017 and 2016, respectively, due to higher anticipated administrative costs. Administrative costs increased \$336 and \$275 in 2017 and 2016, respectively, due to efforts focused on meeting State waste diversion initiatives. Commercial Area Street Collection Service is a newly implemented service focused on high traffic pedestrian areas of the City of Sacramento.

General Fund Budgetary Highlights

The fiscal year 2016-2017 Proposed Budget adopted in May of 2016 did not provide a year-end fund balance carry over. Upon closing fiscal year ending June 30, 2016 through higher than anticipated revenues and lower than anticipated expenditures, there was a fund balance carry over in the amount of \$568. The budget was amended, increasing Administration and Program costs by \$568 with the Final Budget adopted by the Solid Waste Authority’s Board of Directors on September 14, 2016.

The fiscal year 2016-2017 Final Budgeted Administrative and Commercial Area Street Collection Service costs were higher than actual by \$697 primarily due to \$383 lower than anticipated participation in the Organics Diversion Incentive program. Collectively, Outreach, City Code Enforcement and Professional Services (Auditing/Consulting) experienced \$163 lower than anticipated expenditures. Commercial Area Street Collection Service experienced \$96 lower than anticipated expenditures due to services beginning in the latter half of the year.

Economic Factors and Next Year’s Budget

The fiscal year 2017-18 Final Budget was adopted by the Solid Waste Authority’s Board of Directors on September 14, 2017 decreasing Administration and Program costs by \$278 (decreasing Organics Diversion Incentive Fund by \$300 and increasing Commercial Area Street Collection Service by \$22). These changes were made available primarily through higher than anticipated revenues and lower than anticipated expenditures experienced in 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Solid Waste Authority 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 Nicole Johnson, acting Chief Financial and Administrative Officer, Department of Waste Management and Recycling, 9850 Goethe Road, Sacramento, CA 95827, or at johnsonnt@saccounty.net.

Sacramento Regional Solid Waste Authority
Statements of Net Position – Governmental Activities
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash and investments	\$ 2,313,306	\$ 1,703,419
Accounts receivable	461,100	451,556
	2,774,406	2,154,975
LIABILITIES:		
Accounts payable and accrued expenses	32,842	21,286
Due to other governments	386,296	462,937
Deposits from others	7,000	5,500
	426,138	489,723
NET POSITION:		
Unrestricted	2,348,268	1,665,252
Total Net Position:	\$ 2,348,268	\$ 1,665,252

See accompanying notes to the basic financial statements.

Sacramento Regional Solid Waste Authority
Statements of Activities – Governmental Activities
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Program revenues:		
Franchise fees	\$ 5,094,939	\$ 4,823,172
Total program revenues	<u>5,094,939</u>	<u>4,823,172</u>
General revenues:		
Interest and other income	64,607	17,469
Total revenues	<u>5,159,546</u>	<u>4,840,641</u>
Expenses:		
Distributions to members	3,144,450	3,743,173
Administrative costs	1,228,040	892,120
Commercial Area Street Collection Service	104,040	-
Total expenses	<u>4,476,530</u>	<u>4,635,293</u>
Change in net position	683,016	205,348
Net position, beginning of year	<u>1,665,252</u>	<u>1,459,904</u>
Net position, end of year	<u>\$ 2,348,268</u>	<u>\$ 1,665,252</u>

See accompanying notes to the basic financial statements.

Sacramento Regional Solid Waste Authority
Balance Sheets
Governmental Fund – GENERAL FUND
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash and investments	\$ 2,313,306	\$ 1,703,419
Accounts receivable	<u>461,100</u>	<u>451,556</u>
Total Assets	<u>\$ 2,774,406</u>	<u>\$ 2,154,975</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 32,842	\$ 21,286
Due to other governments	386,296	462,937
Deposits from others	<u>7,000</u>	<u>5,000</u>
Total Liabilities	<u>426,138</u>	<u>489,723</u>
FUND BALANCES:		
Unassigned	<u>2,348,268</u>	<u>1,665,252</u>
Total Fund Balances	<u>2,348,268</u>	<u>1,665,252</u>
Total Liabilities and Fund Balance	<u>\$ 2,774,406</u>	<u>\$ 2,154,975</u>

See accompanying notes to the basic financial statements.

Sacramento Regional Solid Waste Authority
Statements of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Franchise fees	\$ 5,094,939	\$ 4,823,172
Fines, forfeitures and penalties	43,189	11,572
Interest	20,918	4,024
Other	500	1,873
Total revenues	<u>5,159,546</u>	<u>4,840,641</u>
EXPENDITURES:		
Current:		
Distributions to members	3,144,450	3,743,173
Administrative costs	1,228,040	892,120
Commercial Area Street Collection Service	104,040	-
Total expenditures	<u>4,476,530</u>	<u>4,635,293</u>
Changes in Fund Balances	683,016	205,348
Fund Balance, beginning of year	<u>1,665,252</u>	<u>1,459,904</u>
Fund Balance, end of year	<u>\$ 2,348,268</u>	<u>\$ 1,665,252</u>

See accompanying notes to the basic financial statements.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Notes to the Basic Financial Statements
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorized Legislation and Organization

The Sacramento Regional Solid Waste Authority (SWA), was 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 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 due to the SWA Board of Directors having majority control of the Board of Directors. 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 statement of net position and statement of activities display information about the primary government (SWA).

The statement 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/expenditures 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 that 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
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provide information about the SWA's funds, which include only governmental funds.

The SWA reports the following major governmental 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 County 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. Board action to

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Notes to the Basic Financial Statements
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The value of the SWA's shares in the pool is determined on an amortized cost basis, which approximates fair market value.

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.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for periods beginning after June 15, 2016. The SWA has determined this statement to be not applicable.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The SWA has determined this statement to be not applicable.

GASB Statement No. 78 – In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state of local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The SWA has determined this statement to be not applicable.

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Notes to the Basic Financial Statements
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*—an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The SWA has determined this statement to be not applicable.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice or financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The SWA has determined this statement to be not applicable.

NOTE 2 – CASH AND INVESTMENTS

As discussed in Note 1, the SWA’s cash and investments are involuntarily held in the County Treasurer’s pool. The County Treasurer’s pool is not rated by credit rating agencies. At June 30, 2017 and 2016, the SWA’s cash and investments held in the County Treasurer’s pool totaled \$2,313,306 and \$1,703,419, 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 basic financial statements. The SWA has not formally adopted an investment policy that addresses any of the risks previously noted.

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, 2016, and June 30, 2017, SWA held no individual investments. All funds are invested in the County Treasurer’s Investment Pool.

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Notes to the Basic Financial Statements
June 30, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

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, 2017 of \$2,313,306 and June 30, 2016 of \$1,703,419 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 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, 2017 and 2016, Due to other governments was made up of the final member distribution to the City of Sacramento in the amount of \$386,296 and \$462,937, respectively.

NOTE 5 – RELATED PARTY TRANSACTIONS

The SWA uses County of Sacramento departments for administrative services such as ordinance enforcement and development as well as accounting, treasury and clerical work. Expenditures paid to the County of Sacramento during fiscal years ended June 30, 2017 and 2016 were \$1,228,040 and \$892,120, respectively.

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (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:

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Notes to the Basic Financial Statements
June 30, 2017 and 2016

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

provided by other entities. This statement is effective for periods beginning after June 15, 2017. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 83 – In November 2016 GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes 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 requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus*. The objective of this Statement is to address practice issues that have been identified during implementation of application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is

SACRAMENTO REGIONAL SOLID WASTE AUTHORITY
Notes to the Basic Financial Statements
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NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after December 15, 2019. The SWA is evaluating the effect, if any, on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain disclosures related to debt, including direct borrowings and direct placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for reporting periods beginning after June 15, 2018. The SWA is evaluating the effect, if any, on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Sacramento Regional Solid Waste Authority
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2017

	Budget Original	Budget Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Franchise Fees	\$4,600,000	\$ 4,600,000	\$ 5,094,939	\$ 494,939
Fines, forfeitures and penalties	5,000	5,000	43,189	38,189
Interest	-	-	20,918	20,918
Other			500	500
Total Revenues	4,605,000	4,605,000	5,159,546	554,546
EXPENDITURES:				
Current:				
Distribution to members:				
City of Sacramento	1,545,183	1,545,183	1,545,183	-
County of Sacramento	1,599,267	1,599,267	1,599,267	-
Administrative services	1,380,550	1,828,696	1,228,040	600,656
Commercial Area Street Collection Service	80,000	200,000	104,040	95,960
Total Expenditures	4,605,000	5,173,146	4,476,530	696,616
NET CHANGE IN FUND BALANCE	\$ -	\$ (568,146)	683,016	\$ 1,251,162
FUND BALANCE, July 1			1,665,252	
FUND BALANCE, June 30			\$ 2,348,268	

See accompanying notes 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 Year Ended June 30, 2016

	Budget Original	Budget Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Franchise Fees	\$4,325,000	\$ 4,400,000	\$ 4,823,172	\$ 423,172
Fines, forfeitures and penalties	5,000	5,000	11,572	6,572
Interest	(6,069)	(6,069)	4,024	10,093
Other			1,873	1,873
	<u>4,323,931</u>	<u>4,398,931</u>	<u>4,840,641</u>	<u>441,710</u>
Total Revenues				
EXPENDITURES:				
Current:				
Distribution to members:				
City of Sacramento	1,720,532	1,851,748	1,851,748	-
County of Sacramento	1,757,399	1,891,425	1,891,425	-
Administrative services	846,000	1,003,500	892,120	111,380
	<u>4,323,931</u>	<u>4,746,673</u>	<u>4,635,293</u>	<u>111,380</u>
Total Expenditures				
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (347,742)</u>	205,348	<u>\$ 553,090</u>
FUND BALANCE, July 1			1,459,904	
FUND BALANCE, June 30			<u>\$ 1,665,252</u>	

See accompanying notes to the required supplementary information

**Sacramento Regional Solid Waste Authority
Note to Required Supplementary Information
For the Years Ended June 30, 2017 and 2016**

NOTE 1: BUDGET AND BUDGETARY ACCOUNTING

The SWA prepares a proposed budget in May preceding the budget year. Commencing July 1st, the SWA is governed by the proposed 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 REPORTS



**INDEPENDENT AUDITORS' 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, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 17, 2018.

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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

May 17, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

To the Board of Directors
Sacramento Regional Solid Waste Authority
Sacramento, California

We have audited the financial statements of the governmental activities and the general fund of Sacramento Regional Solid Waste Authority (Authority), a component unit of the County of Sacramento, California, for the years ended June 30, 2017 and 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017 and 2016. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 17, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California

May 17, 2018