

Sonoma County Waste Management Agency

**Annual Report
for the Fiscal Year Ended
June 30, 2010**



RODNEY A. DOLE
SONOMA COUNTY
AUDITOR-CONTROLLER
TREASURER-TAX COLLECTOR

Sonoma County Waste Management Agency

**Annual Report
For the Fiscal Year Ended
June 30, 2010**

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RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
ASSISTANT
AUDITOR-CONTROLLER

ROBERT BOITANO
ASSISTANT
TREASURER

PAM JOHNSTON
ASSISTANT
TAX COLLECTOR / AUDITOR

Members of the Board
Sonoma County Waste Management Agency

Auditor-Controller's Report

We have audited the accompanying basic financial statements of the Sonoma County Waste Management Agency, (the Agency) as of and for the year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note IV.B of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2010 and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Sonoma County Auditor-Controller

March 11, 2011

Management's Discussion and Analysis

As management of the Sonoma County Waste Management Agency (the Agency) we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$7,386,692 (net assets). All of this amount is unrestricted and may be used to meet the agency's ongoing obligations to citizens and creditors.
- The Agency's total net assets decreased by \$534,284 or 7%. This decrease is a result of expenses exceeding revenues in the agency activities.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components: 1) proprietary fund financial statements and 2) notes to the financial statements.

Proprietary Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency maintains one type of proprietary fund. The Agency uses enterprise funds to account for its agency activities, which include waste management.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the fund financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the Agency, assets exceeded liabilities by \$7,386,692 at the close of the most recent fiscal year.

	Net Assets		Increase (Decrease)
	2010	2009	
Current and other assets	\$ 8,312,234	\$ 8,262,994	49,240
Liabilities outstanding	925,542	725,069	200,473
Net assets:			
Unrestricted	7,386,692	7,811,297	(424,605)
Prior period adjustment	-	109,679	(109,679)
Total net assets	\$ 7,386,692	\$ 7,920,976	(534,284)

The Agency's unrestricted net assets \$7,386,692 may be used to meet the Agency's ongoing obligations to citizens and vendors.

At the end of the current fiscal year, the Agency is able to report a positive balance in its net assets. The same held true for the prior fiscal year. However, the Agency's net assets decreased by \$534,284 during the current fiscal year.

Business-type activities: Business-type activities decreased the Agency's net assets by \$534,284 . This decrease is a result of expenses exceeding revenues in the business-type activities.

Changes in Net Assets

	2010	2009	Increase (Decrease)
Revenues:			
Program Revenues:			
Municipal waste management	\$ 5,398,240	\$ 5,721,335	(323,095)
General Revenues:			
Investment income and other	66,933	191,684	(124,751)
Total revenues	5,465,173	5,913,019	(447,846)
Expenses:			
Program Expenses:			
Municipal waste management	5,999,457	5,238,891	760,566
Total expenses	5,999,457	5,238,891	760,566
Increase (decrease) in net assets	(534,284)	674,128	(1,208,412)
Net assets - beginning of the year	7,920,976	7,137,169	783,807
prior period adjustment		109,679	(109,679)
Net assets - beginning of the year, as restated	7,920,976	7,246,848	674,128
Net assets - end of the year	\$ 7,386,692	\$ 7,920,976	(534,284)

Capital Assets: The Agency has no investment in capital assets, as of June 30, 2010.

Economic Factors and Next Year's Budgets and Rates

- The Agency has a goal to stabilize the surcharge tipping fees in the next four years in order to mitigate effects on each of the jurisdictions' individual budget plans.
- The Agency will set aside reserve funds, when possible, as part of its long-term financial planning.

All of these factors were considered in preparing the Agency's budget for the fiscal year ending June 30, 2011.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Waste Management Agency, 2300 County Center Drive Ste. B-100, Santa Rosa, CA 95403.

Sonoma County Waste Management Agency
Statement of Net Assets
Enterprise Fund
June 30, 2010

Assets

Current assets:

Cash and investments	\$	7,875,129
Accounts receivable		332,976
Due from Other Governments		104,129

Total assets		<u>8,312,234</u>
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Liabilities

Accounts payable		<u>925,542</u>
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Total liabilities		<u>925,542</u>
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Net Assets

Unrestricted		<u>7,386,692</u>
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Total net assets	\$	<u><u>7,386,692</u></u>
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The notes to the basic financial statements are an integral part of this statement.

Sonoma County Waste Management Agency
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Fiscal Year Ended June 30, 2010

Operating Revenues

Tipping fees and surcharges	\$ 4,586,670
Service agreements	686,922
Grants and other contributions	<u>124,648</u>
Total operating revenues	<u>5,398,240</u>

Operating Expenses

Contract services	4,941,499
Professional services	122,989
Administration	595,723
Other services and supplies	<u>339,246</u>
Total operating expenses	<u>5,999,457</u>
Operating income (loss)	<u>(601,217)</u>

Nonoperating Revenues (expenses)

Investment earnings	<u>66,933</u>
Change in net assets	(534,284)
Net assets, beginning of year	7,811,297
Prior period adjustment	<u>109,679</u>
Net assets, beginning of year, as restated	<u>7,920,976</u>
Net assets, end of year	<u>\$ 7,386,692</u>

The notes to the basic financial statements are an integral part of this statement.

Sonoma County Waste Management Agency
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Cash Flows from Operating Activities

Receipts from customers and other funds	\$ 5,287,878
Payments to suppliers	<u>(5,742,676)</u>
Net cash used in operating activities	<u>(454,798)</u>

Cash Flows from Investing Activities

Interest received	<u>66,933</u>
Net cash provided by investing activities	<u>66,933</u>
Net decrease in cash and cash equivalents	(387,865)
Cash and cash equivalents, beginning of year	<u>8,262,994</u>
Cash and cash equivalents, end of year	<u>\$ 7,875,129</u>

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (601,217)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in accounts receivable	(65,779)
Increase in accounts payable	256,781
Decrease in deferred revenue	<u>(56,308)</u>
Total adjustments	<u>146,419</u>
Net cash provided used in operating activities	<u>\$ (454,798)</u>

The notes to the basic financial statements are an integral part of this statement.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Sonoma County Waste Management Agency (the Agency) was formed in April 1992 to assist the cities and County with the implementation of programs necessary to satisfy the requirements of AB939, the Integrated Waste Management Act of 1989. This Act requires that every jurisdiction in California plan for and implement programs that reduce the amount of waste disposed in landfills by 25% by 1995 and 50% by 2000. The Agency was granted a three-year extension to 2003 by the State. The State has determined that the Agency has met its 2003 goal. The Agency is continuing its efforts to reduce the amount of waste disposed in landfills, beyond the current 50% required by AB939. As of the date of this report, no new laws requiring waste reduction beyond 50% have been enacted.

The Agency's activities include a regional composting program, household hazardous waste collection, and countywide efforts towards waste reduction and recycling.

The Agency is governed by ten board members, with one member from each city (9), and one from the County. The Recycling Manager of the Transportation and Public Works Department serves as the Executive Director for the Agency. The staffing for the Agency is provided by the County through a contract with the Agency.

The Agency's programs are funded through garbage disposal fee surcharges, charges for services, and grants. Each program of the Agency is accounted for with a separate cost center. The composting program is entirely funded by charges for delivery of material to its program. The household hazardous waste, education and waste diversion efforts are funded through a surcharge on garbage brought to County disposal sites along with support from State Grants.

Since its creation in April of 1992, the Agency has added two new components to its scope of work: the Planning and Diversion Programs. Planning efforts currently include preparation of Annual Reports submitted to the California Integrated Waste Management Board. The Diversion Program is a cost center established to track the expenditures of those Agency programs that have direct measurable diversion. Both of these programs are funded through the disposal fee surcharge.

As discussed in Note I.A, the basic financial statements of the Agency are intended to present only the financial position and results of operations of only the Agency, which are held in trust by the Agency. They do not purport to, and do not, present fairly the financial position of the County of Sonoma as of June 30, 2010, and the

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This means that all assets and all liabilities (whether current or noncurrent) associated with this activity are included on the statement of net assets. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied.

The Agency has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The Agency's Enterprise Fund financial statements report business-type activities financed in whole or in part by fees charged to external parties for goods or services. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges -- or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accrual basis of accounting is used by enterprise funds. Under this method, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. *Operating* revenues, such as tipping fees and sales of recycled products result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating*

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

revenues, such as grants and investment earnings, result from nonexchange transactions or ancillary activities. *Operating* expenses for enterprise funds include services and supplies, and depreciation on capital assets. All expenses not falling within these categories are reported as *nonoperating* expenses.

C. Accounting System Maintained by Sonoma County Financial Accounting and Management Information System (FAMIS)

The Agency uses the County's FAMIS and its budgetary recording and accounting control policies to account for all financial transactions affecting Agency funds. The County, through the Integrated Waste Management Division of the Department of Transportation and Public Works Department, tracks each load of yard and wood waste entering the county disposal system. A tonnage tipping fee is collected to pay for operating costs of the organics program. A surcharge on the solid waste tipping fee entering the county disposal system is used to fund the other programs, such as household hazardous waste, education, diversion, and planning.

D. Staff Services Performed by County of Sonoma

The Agency reimburses the County for services provided by the County as outlined in a Memorandum of Understanding between the County and the Agency dated September 18, 2007.

Staff services include Agency Director, professional staff, secretarial and as requested by the Agency, reasonable and necessary services from other County departments.

E. Assets, Liabilities and Equity

1. Cash and Investments

The Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Agency has stated certain investments at fair value.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

2. Receivables and Payables

Transactions representing accrual of revenues and expenses at year-end are referred to as either accounts receivable or accounts payable.

3. Capital Assets

Capital assets, which include land, buildings and improvements, and equipment, are reported in the statement of net assets. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Agency's policy is to capitalize assets with acquisition costs of at least \$5,000. Depreciation is computed using the straight-line method over estimated useful lives of 5 years for equipment. The Agency does not own land, buildings or improvements.

4. Net assets

Net assets are classified into three components - invested in capital asset (net of related debt), restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt (if any) - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets (if any) - This component of net assets consists of net assets with limits on their use that are imposed by outside parties.
- Unrestricted net assets - This component of net assets consists of net assets that are not restricted for any project or other purpose.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis. Annual appropriations that have not been encumbered lapse at year-end.

Annual budgets are adopted on a basis that differs from generally accepted accounting principles (GAAP) in which encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase for the purpose of a budgetary presentation. Actual GAAP expenditures have been adjusted to exclude current year encumbrances and to include expenditures against prior year encumbrances. This allows a comparison of a fiscal year's expenditures and commitments with related appropriations.

The impact on the basic financial statements of the County of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

The Agency's employees are employees of the County of Sonoma. The County's financial statements include the required information and disclosures relating to these statements. Please see the County of Sonoma annual comprehensive financial report for additional information.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

III. Detailed Notes

A. Cash and Investments

The Agency follows the County's practice of pooling cash and investments with the County Treasurer, except for a petty cash fund.

The amount of cash at June 30 is as follows:

Cash and investment in County Treasury	\$ <u>7,875,129</u>
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Investment in the Sonoma County Treasurer's Investment Pool

The Agency's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Agency. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

As of June 30, 2010, the Agency's share of the decrease in fair value of investments was immaterial.

Investment Guidelines

The Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the

Sonoma County Waste Management Agency
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Sonoma County Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2010, approximately 74 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 3 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

➤ The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
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undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

➤ The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2010 Sonoma County CAFR.

B. Prior Period Adjustment

A restatement of beginning net assets in the amount of \$109, 679 was performed to account for revenues and expenditures recognized in the wrong fiscal year.

IV. Other Information

A. Risk Management

The Sonoma County Waste Management Agency is exposed to various risks for which the Agency carries insurance with coverage for bodily injury, property damage, personal injury, auto liability, and errors and omissions. SCWMA is covered through Alliant Insurance Services, Inc for \$5,000,000 per occurrence.

B. Auditor Independence

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
June 30, 2010

Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

C. New Accounting Pronouncements

Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, issued in February 2009. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. GASB Statement No. 54 is effective for financial statements for fiscal years beginning after June 15, 2010.

The impact on the basic financial statements of the County of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

**Sonoma County Waste Management Agency
Board Members**

As of March 11, 2011, the Agency Board consisted of the following members:

Nina Regor	City of Cloverdale
Marsha Sue Lustig	City of Cotati
Mike Kirn	City of Healdsburg
Vince Marengo	City of Petaluma
Linda Babonis	City of Rohnert Park
Dell Tredinnick	City of Santa Rosa
Jack Griffin	City of Sebastopol
Phil Demery	County of Sonoma
Stephen Barbose	City of Sonoma
Christa Johnson (Chair)	Town of Windsor

Meetings are held at the City of Santa Rosa Utilities Department's Subregional Water Reclamation System Laguna Plant, 4300 Llano Road, Santa Rosa every third Wednesday of each month at 9:00 A.M.