

Sonoma County Waste Management Agency

**Independent Auditor's Report, Management's Discussion and Analysis,
and Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**



**Sonoma County Waste Management Agency
Fiscal Year Ended June 30, 2023**

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Independent Auditor's Report

To the Board of Directors
Sonoma County Waste Management Agency

Opinion

We have audited the financial statements of the Sonoma County Waste Management Agency (the "Agency"), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.



Santa Rosa, California
March 11, 2024

**Sonoma County Waste Management Agency
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

The Management's Discussion and Analysis provides an overview and analysis of the Sonoma County Waste Management Agency (Zero Waste) financial activities for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with Zero Waste's financial statements and the accompanying notes.

Financial Highlights

Zero Waste's net position, as of June 30, 2023, was \$10,939,087, an increase of \$1,278,382 in comparison with the prior year. Total revenues increased by \$1,889,806, and total operating expenses increased by \$1,183,045.

Overview of the Basic Financial Statements

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

Zero Waste accounts for its financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), and cash flows.

All activities are presented in the following three basic financial statements:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Sonoma County Waste Management Agency
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Financial Analysis

Net Position - Over time, changes in net position may indicate whether the financial position of Zero Waste is improving or deteriorating. Net position increased to \$10,939,087 during the fiscal year ended June 30, 2023, a change of \$1,278,382 from the fiscal year ended June 30, 2022. Current assets increased by \$1,345,043 compared to prior year due to additional cash and accounts receivable from additional state grants. The following table summarizes the statement of net position:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Assets			
Current assets	\$ 12,711,467	\$ 11,366,424	\$ 1,345,043
Capital assets	-	5,167	(5,167)
Total assets	<u>12,711,467</u>	<u>11,371,591</u>	<u>1,339,876</u>
Liabilities			
Current liabilities	<u>1,772,380</u>	<u>1,710,886</u>	<u>61,494</u>
Total liabilities	<u>1,772,380</u>	<u>1,710,886</u>	<u>61,494</u>
Net position			
Net investment in capital assets	-	5,167	(5,167)
Unrestricted net position	<u>10,939,087</u>	<u>9,655,538</u>	<u>1,283,549</u>
Total net position	<u>\$ 10,939,087</u>	<u>\$ 9,660,705</u>	<u>\$ 1,278,382</u>

Change in Net Position - Total revenues for the fiscal year ended June 30, 2023 were \$12,058,564, an increase of \$1,889,806 compared to prior year. Operating revenues increased by \$635,693, primarily due to a rate increase for tipping fees and surcharges. Nonoperating revenues increased by \$1,254,113, due to additional state grant revenue received. Zero Waste also had investment income of \$128,179 in comparison with an investment loss of \$269,628 in the prior year. Zero Waste's operating expenses were \$10,780,182, an increase of \$1,183,045 compared to the prior year, primarily due to annual CPI increases of the Household Hazardous Waste facility and compost hauling and processing and grant expenditures for two new grants. Operating expenses were comprised of contract services, administration, and professional services. The following table summarizes the changes in net position for the current and prior fiscal year end:

	June 30, 2023	June 30, 2022	Increase (Decrease)
Revenues			
Operating revenues	\$ 10,574,272	\$ 9,938,579	\$ 635,693
Nonoperating revenues	<u>1,484,292</u>	<u>230,179</u>	<u>1,254,113</u>
Total revenues	<u>12,058,564</u>	<u>10,168,758</u>	<u>1,889,806</u>
Expenses			
Operating expenses	<u>10,780,182</u>	<u>9,597,137</u>	<u>1,183,045</u>
Increase in net position	1,278,382	571,621	706,761
Net position - beginning of the year	<u>9,660,705</u>	<u>9,089,084</u>	<u>571,621</u>
Net position - end of the year	<u>\$ 10,939,087</u>	<u>\$ 9,660,705</u>	<u>\$ 1,278,382</u>

**Sonoma County Waste Management Agency
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2023**

Economic Outlook

- Zero Waste's revenue is expected to cover expenditures for all planned future projects.

Request for Additional Information

This financial report is designed to provide our residents, taxpayers and creditors with a general overview of Zero Waste's finances and to demonstrate its accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to Sonoma County Waste Management Agency, 2300 County Center Drive Ste. B-100, Santa Rosa, CA 95403.

Respectfully submitted,

Leslie Lukacs

Executive Director

Sonoma County Waste Management Agency
Statement of Net Position
June 30, 2023

Assets

Current assets

Cash and investments	\$ 10,466,591
Prepaid expenses	11,878
Due from state	421,574
Due from other governments	1,811,424

Total assets	12,711,467
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Liabilities

Current liabilities

Accounts payable	883,395
Unearned revenues	888,985

Total liabilities	1,772,380
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Net position

Unrestricted	10,939,087
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Total net position	\$ 10,939,087
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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 Net Position
For the Fiscal Year Ended June 30, 2023

Operating revenues	
Tipping fees and surcharges	\$ 10,111,042
Service agreements	463,230
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Total operating revenues	10,574,272
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Operating expenses	
Contract services	7,800,805
Administration	1,625,024
Professional services	1,349,186
Depreciation	5,167
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Total operating expenses	10,780,182
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Operating loss	(205,910)
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Nonoperating revenues	
State grant revenue	1,356,113
Investment income	128,179
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Total nonoperating revenues	1,484,292
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Change in net position	1,278,382
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Net position, beginning of year	9,660,705
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Net position, end of year	\$ 10,939,087
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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 Cash Flows
For the Fiscal Year Ended June 30, 2023

Cash flows from operating activities	
Cash received from customers	\$ 10,220,821
Payments to suppliers	(9,407,252)
Payments for services provided by County of Sonoma	(1,282,776)
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Net cash used in operating activities	(469,207)
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Cash flows from noncapital financing activities	
Noncapital grants received - state	1,077,791
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Net cash provided by noncapital financing activities	1,077,791
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Cash flows from investing activities	
Investment income	128,179
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Net cash provided by investing activities	128,179
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Net increase in cash and investments	736,764
Cash and investments, beginning of year	9,729,827
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Cash and investments, end of year	\$ 10,466,591
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Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (205,910)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	5,167
Decrease in prepaid expense	548
Increase in accounts receivable	(359,166)
Increase in accounts payable and accrued liabilities	90,154
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Net cash used in operating activities	\$ (469,207)
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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
For the Fiscal Year Ended June 30, 2023

1. Reporting Entity

The Sonoma County Waste Management Agency (Zero Waste) was formed in April 1992 by a joint exercise of powers agreement between the cities and towns of Sonoma County and the County of Sonoma (the County) to assist the cities and the County with the implementation of programs necessary to satisfy the requirements of the Assembly Bill (AB) 939, the Integrated Waste Management Act of 1989.

Zero Waste is governed by a ten-member board of directors, with one member from nine Sonoma County cities and towns and one from the County.

Zero Waste's education, diversion, and planning activities include a regional composting program, household hazardous waste collections, and countywide efforts towards waste reduction and recycling. Zero Waste's activities are funded through garbage disposal tonnage and surcharge fees, charges for services and grants. The County, through Zero Waste, 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 composting program. A surcharge on the solid waste tipping fee entering the county disposal system is used to fund the other activities, such as household hazardous waste, education, diversion, and planning.

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting policies of Zero Waste conform to the accounting principles generally accepted in the United States of America as applicable to governmental units.

Zero Waste uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

Zero Waste's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of Zero Waste are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Investments

Zero Waste's cash and investments are pooled with the Sonoma County Treasurer (the Treasurer). The Treasurer also acts as a disbursing agent for Zero Waste. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to Zero Waste based on its respective average daily balance for that quarter in the Sonoma County Treasury Investment Pool (the Treasury Pool), an external investment pool.

In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and External Investment Pools*" and GASB Statement No. 72, "*Fair Value Measurement and Application*", investments are stated at fair value in the statement of net position and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. Zero Waste follows the practice of pooling cash and investments of all funds with the Treasurer. The fair value of investments is determined annually. Interest earned on pooled investments is allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

For purposes of the statement of cash flows, Zero Waste considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

Capital Assets

Zero Waste's policy is to capitalize equipment valued over \$5,000 and furniture valued over \$25,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of five years.

Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met but revenue recognition criteria have not been satisfied. Zero Waste has three advance grants from the state of California: Oil Payment program, Local Assistance program, and Beverage Container program. Zero Waste receives the money in advance before earning the grant revenue. The grant revenue is earned when activity is performed that meets the grant requirements.

**Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (continued)

Net Position

Net position is presented in the following components:

- **Net Investment in capital assets** (if any) - This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position** (if any) - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of “investment in capital assets” or “restricted”.

When both restricted and unrestricted resources are available for use, it is Zero Waste’s policy to use restricted resources first, then unrestricted resources as they are needed.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Cash and Investments

Zero Waste follows the County's practice of pooling cash and investments with the Treasurer. The Investment Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool. The fair value of Zero Waste’s investment in this pool is reported in the accompanying financial statements at amounts based upon Zero Waste’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.

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

3. Cash and Investments (continued)

Investment Guidelines

Zero Waste's pooled cash and investments are invested pursuant to investment policy guidelines established by the 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 Sonoma County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100, Santa Rosa, California 95403.

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 Treasurer manages Zero Waste's 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.

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. It is the County's policy to purchase investments meeting rating requirements established by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2023 are disclosed in the County's Annual Comprehensive Financial Report.

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. 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).

Sonoma County Waste Management Agency
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

3. Cash and Investments (continued)

Fair Value Measurements

Zero Waste 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. Zero Waste has a recurring fair value measurement for its investment in the Treasury Pool of \$354,509 as of June 30, 2023, which is valued using significant other observable inputs (Level 2).

4. Risk Management

Zero Waste is exposed to various risks for which it carries insurance with coverage for bodily injury, property damage, personal injury, auto liability, and errors and omissions. Zero Waste is covered through Great American Insurance Group for \$5,000,000 per occurrence. Zero Waste is covered for \$2,000,000 per occurrence for employment practices liability with a deductible of \$10,000.

5. Related Party Transactions

Zero Waste's staffing, occupancy, and support services are provided by the County, a member of the Board of Directors. Zero Waste appoints an executive director who is employed through an at-will agreement with the County. Additional staffing is provided by the County through a contract with Zero Waste. During the year ended June 30, 2023, expenses for these services totaled \$1,282,776.

6. Future Pronouncements

The GASB has released the following standards which may be implemented in future financial statements:

GASB Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*

Effective fiscal year 2023-24, Statement No. 100's objective is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, relevant, consistent, and comparable information for making decisions or assessing accountability.