

**MERCED COUNTY REGIONAL WASTE
MANAGEMENT AUTHORITY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
<u>BASIC FINANCIAL STATEMENTS</u>	
Statement of Net Position.....	12
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to the Basic Financial Statements	17
<u>OTHER AUDITOR'S REPORT</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of Findings and Questioned Costs	30
Summary Schedule of Prior Audit Findings	31



INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the
Merced County Regional Waste
Management Authority
Merced, California

We have audited the accompanying financial statements of the Merced County Regional Waste Management Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540

fax 559.299.2344

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Merced County Regional Waste Management Authority, as of June 30, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-9 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 January 8, 2019, 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.

Price Pange & Company

Clovis, California
January 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

This section of the Merced County Regional Waste Management Authority's (Authority) audit presents a discussion and analysis of the Authority's performance during the fiscal year ended June 30, 2018. This is to be read in conjunction with the Independent Auditor's Report and the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Authority assets exceeded liabilities at the close of the 2017/18 fiscal year by \$36,948,473, \$8.5 million more than the prior year. Unrestricted net position of \$30.5 million may be used to meet ongoing obligations to creditors. Net investment in capital assets totaled \$6,432,609.
- The Authority's net position increased by almost \$8.5 million during the fiscal year ended June 30, 2018. Operating revenues exceeded expenses by nearly \$9.3 million.
- Debt service payments for capital leases and bonds, as well as zero pensionable payroll, reduced long-term liability by \$3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Fund basic financial statements are designed to provide readers with a broad overview of Authority finances.

The *statement of net position* presents information on all Authority assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how net position changed during the last 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 (e.g., uncollected service charges and earned but unused vacation leave).

The *statement of cash flows* presents information about the cash receipts and cash payments of the Authority during the last fiscal year. When used with related disclosures and information in the other financial statements, the information provided in the statement of cash flows should help financial report users assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due, its need for external financing, the reasons for differences between operating income and associated cash receipts and payments, and the effect on the Authority's financial position of both its current and its noncash investing, capital and related financing transactions during the fiscal year.

Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes can be found on pages 17-24 of this report.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

FINANCIAL ANALYSIS

The analysis of the Authority's financial condition begins on page 12 of the financial statements. The statement of net position and the statement of revenues, expenses and changes in net position provide an indication of the Authority's financial well-being. Over time, net position can be used to gauge the economic welfare of an organization.

Assets and deferred outflows exceeded liabilities and deferred inflows by \$36.9 million. The 18.4% increase in current assets is attributed to a growth in pooled cash and investments of \$5.4 million over the prior fiscal year. Land and building improvements in addition to equipment acquisitions totaled \$2.3 million. These were accompanied by another \$2,230,000 of construction in progress projects. Asset disposals of \$538,168 and depreciation expense of \$3.8 million netted an increase of \$1,039,533 in capital assets.

Current liabilities at year end were 55% higher than the previous year. Pending payments towards a \$6 million construction project as well as engineering on upcoming, significant projects contributed to much of the \$1.4 million increase in current year liabilities. The Authority was not only able to satisfy its current year debt service payments to the 2015 Revenue Bond Series A and B, but also made the final payments to the last capital lease.

Long-term liabilities decreased by over \$2.4 million largely due to the elimination of \$1.3 million in net pension liability. RWA has leased all staff from MCAG since 2016 and has not participated in the MCERA pension program since then. Per GASB 68, a one-year payroll "look-back" period is used to determine current year net pension liability (in this case, 2017). The prior year balance in net pension liability was zeroed out in the current year due to MCERA pension actuarials confirming both zero pensionable payroll and zero liability. By the same token, the pension-related prior year balance of \$930,673 in deferred inflows of resources was also removed.

Investments in capital assets (land, structures, improvements, equipment, and construction in progress) make up 17% of the Authority's net position, less any related debt used to acquire those assets that were still outstanding.

	MCRWMA NET POSITION						
	2018	\$	%	2017	\$	%	2016
Current and other assets	\$ 37,287,337	\$ 5,795,451	18.4%	\$ 31,491,886	\$ 4,776,384	17.9%	\$ 26,715,502
Capital assets	<u>22,014,825</u>	<u>1,039,533</u>	5.0%	<u>20,975,292</u>	<u>(3,044,934)</u>	-12.7%	<u>24,020,226</u>
Total assets	<u>59,302,162</u>	<u>6,834,984</u>	13.0%	<u>52,467,178</u>	<u>1,731,450</u>	3.4%	<u>50,735,728</u>
Total deferred outflows of resources	<u>1,597,783</u>	<u>(282,176)</u>	-15.0%	<u>1,879,959</u>	<u>(229,245)</u>	-10.9%	<u>2,109,204</u>
Current liabilities:	3,935,438	1,392,621	54.8%	2,542,817	(1,012)	0.0%	2,543,829
Long-term liabilities	<u>20,016,034</u>	<u>(2,453,911)</u>	-10.9%	<u>22,469,945</u>	<u>(1,757,931)</u>	-7.3%	<u>24,227,876</u>
Total liabilities	<u>23,951,472</u>	<u>(1,061,290)</u>	-4.2%	<u>25,012,762</u>	<u>(1,758,943)</u>	-6.6%	<u>26,771,705</u>
Total deferred inflows of resources	<u>-</u>	<u>(930,673)</u>	-100.0%	<u>930,673</u>	<u>106,411</u>	12.9%	<u>824,262</u>
Net investment in capital assets	6,432,608	2,586,627	67.3%	3,845,981	(1,462,084)	-27.5%	5,308,065
Unrestricted	<u>30,515,865</u>	<u>5,958,144</u>	24.3%	<u>24,557,721</u>	<u>4,616,821</u>	23.2%	<u>19,940,900</u>
Total net position	<u>\$ 36,948,473</u>	<u>\$ 8,544,771</u>	30.1%	<u>\$ 28,403,702</u>	<u>\$ 3,154,737</u>	12.5%	<u>\$ 25,248,965</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The Authority uses these capital assets to provide services to customers; therefore, these assets are not available for future spending. Although the Authority's investment in its capital assets was reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Resources that are subject to external restrictions make up 8% of the Authority's net position. Actual available closure funds of \$2,921,967 are netted against a closure/post closure liability of \$4,548,034. The difference of \$1,626,067 must be covered by unrestricted net position. The remaining unrestricted net position (\$30,515,865) may be used to meet the Authority's ongoing obligations to vendors and creditors.

At the end of the fiscal year, the Authority reported positive balances in net investment in capital assets and unrestricted net position.

Various short-term contracts resulted in an increase of 27% in landfill tipping fee revenue. Decreases in the market prices for electronic waste and other commodities, and lower sales of compost and other organics resulted in a 3% drop in other operating revenues.

Total operating expenses were 18% lower than the prior year. A negative pension adjustment of \$2,143,698 was initiated to remove prior year balances of both net pension liability and deferred inflows of resources. By excluding the one-time credit and non-cash expenses such as bad debt, amortization/depreciation, and closure/post closure expense, "true" operating costs increased by \$309,000.

Unprecedented solid waste (495,995 disposed tons) processed at both sites resulted in higher than expected BOE integrated waste fees and caused a \$169,000 increase to special department expense. Costly repairs such as undercarriage replacements on heavy equipment and increased fuel used in the expansion project at Billy Wright increased repairs and maintenance expense by 16%. Heavy equipment rental at Highway 59 to cover unexpected equipment failure resulted in 3 times more rent expense. General administrative costs were reduced 12%, not only by reducing office and communication expenses, but also by transferring the costs of outside janitorial services to in-house staffing. During the fiscal year, tire grant administrators changed the grant reimbursement method from one that previously covered landfill overhead costs to only reimbursing actual tire hauling costs. This required the write-off of over \$33,000 in tire grant receivables, resulting in the bad debt expense increase of \$25,839 over the prior year.

Closure and post closure expense was recorded per GASB 18; however, a pledge of revenue agreement with Cal Recycle allowed the minimum deposit of \$97,540 into the appropriate closure funds.

Pooled cash and investment balances increased by over \$5.6 million; this resulted in 66% more in interest earned over the prior year. A fair market value of just under 99.18% in the Authority's invested funds led to an investment loss of approximately \$241,780. A deteriorated composting pad that fell significantly short of its expected useful life resulted in a disposal asset loss of \$243,141.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Activities: The following table summarizes the comparative changes in net position for the Authority's activities for the fiscal years ended June 30, 2018, 2017 and 2016.

	<u>CHANGES IN NET POSITION</u>						
	<u>2018</u>	<u>\$</u>	<u>%</u>	<u>2017</u>	<u>\$</u>	<u>%</u>	<u>2016</u>
OPERATING REVENUES							
Charges for services	\$ 17,328,265	\$ 3,724,442	27.4%	\$ 13,603,823	\$ 1,801,900	15.3%	\$ 11,801,923
Other	<u>263,357</u>	<u>(8,601)</u>	-3.2%	<u>271,958</u>	<u>(22,904)</u>	-7.8%	<u>294,862</u>
Total operating revenues	<u>17,591,622</u>	<u>3,715,841</u>	26.8%	<u>13,875,781</u>	<u>1,778,996</u>	14.7%	<u>12,096,785</u>
OPERATING EXPENSES							
Personnel services	-	-	-	-	(267,031)	-100.0%	267,031
Special departmental	784,523	169,423	27.5%	615,100	88,758	16.9%	526,342
Professional services	4,011,025	60,435	1.5%	3,950,590	854,542	27.6%	3,096,048
Repairs and equipment maintenance	804,136	109,500	15.8%	694,636	(14,488)	-2.0%	709,124
Rents and leases	33,273	22,571	210.9%	10,702	1,664	18.4%	9,038
General and administrative	348,232	(47,935)	-12.1%	396,167	25,427	6.9%	370,740
Utilities	66,172	(4,983)	-7.0%	71,155	9,575	15.5%	61,580
Pension adjustment	(2,143,698)	(2,143,698)	100.0%	-	-	0.0%	-
Closure and postclosure care costs	575,759	143,016	33.0%	432,743	83,098	23.8%	349,645
Corrective action costs	-	-	0.0%	-	(358,647)	0.0%	358,647
Amortization and depreciation	3,820,008	(199,952)	-5.0%	4,019,960	(440,892)	-9.9%	4,460,852
Bad debt expense (recovery)	<u>34,053</u>	<u>25,839</u>	314.6%	<u>8,214</u>	<u>10,115</u>	0.0%	<u>(1,901)</u>
Total operating expenses	<u>8,333,482</u>	<u>(1,865,785)</u>	-18.3%	<u>10,199,267</u>	<u>(7,879)</u>	-0.1%	<u>10,207,146</u>
Operating income (loss)	<u>9,258,140</u>	<u>5,581,626</u>	151.8%	<u>3,676,514</u>	<u>1,786,875</u>	94.6%	<u>1,889,639</u>
NONOPERATING REVENUES (EXPENSES)							
Interest income	424,962	168,942	66.0%	256,020	110,019	75.4%	146,001
Interest expense	(678,071)	46,559	-6.4%	(724,630)	45,342	-5.9%	(769,972)
Gain (loss) on disposal of assets	(243,141)	(243,141)	100.0%	-	-	0.0%	-
Gain (loss) on investments	(241,780)	(188,632)	354.9%	(53,148)	(177,516)	-142.7%	124,368
Other revenues	<u>24,661</u>	<u>24,680</u>	-	<u>(19)</u>	<u>(19)</u>	-	<u>-</u>
Total nonoperating revenues (expenses)	<u>(713,369)</u>	<u>(191,592)</u>	36.7%	<u>(521,777)</u>	<u>(22,174)</u>	4.4%	<u>(499,603)</u>
Changes in net position	8,544,771	5,390,034	170.9%	3,154,737	1,764,701	127.0%	1,390,036
Net position - beginning	<u>28,403,702</u>	<u>3,154,737</u>	12.5%	<u>25,248,965</u>	<u>1,390,036</u>	5.8%	<u>23,858,929</u>
Net position - ending	<u>\$ 36,948,473</u>	<u>\$ 8,544,771</u>	30.1%	<u>\$ 28,403,702</u>	<u>\$ 3,154,737</u>	12.5%	<u>\$ 25,248,965</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2018, the Authority's capital assets (net of accumulated depreciation) totaled \$22,014,825, 5% more than the \$20,975,292 at June 30, 2017.

The following table summarizes the changes in capital assets for the fiscal years ended June 30, 2018, 2017 and 2016:

	<u>CHANGES IN CAPITAL ASSETS</u>					
	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>	<u>2016</u>	
Land	\$ 1,772,410	0.0%	\$ 1,772,410	1.5%	\$ 1,745,710	
Land improvements	7,981,057	3.2%	7,731,295	0.0%	7,731,295	
Infrastructure	22,879,138	0.0%	22,879,138	0.5%	22,759,138	
Buildings and improvements	4,165,801	1.5%	4,103,143	0.1%	4,099,731	
Equipment	14,125,809	16.7%	12,101,153	4.5%	11,584,981	
Construction in progress	3,148,864	242.6%	919,226	42.9%	643,392	
Accumulated depreciation	<u>(32,058,254)</u>	12.4%	<u>(28,531,073)</u>	16.2%	<u>(24,544,021)</u>	
Total Capital Assets (Net of Accum. Depreciation)	<u>\$ 22,014,825</u>	5.0%	<u>\$ 20,975,292</u>	-12.7%	<u>\$ 24,020,226</u>	

The purchase of a \$1.2 million compactor, a \$320,000 grader, the \$100,000 rebuild of the grinder, and various other smaller purchases increased equipment by 17%. Not only was construction on Cell 2B at the Billy Wright Landfill and gas collection control system expansion at Highway 59 initiated in the current year, but also engineering work was in progress on upcoming significant construction projects such as Cell 6B and the Valley Fill design at Highway 59. Accumulated depreciation is 12% greater than the previous year.

Long-Term Debt

Long-term debt totaled \$20,016,034 at June 30, 2018. This is comprised of closure and post closure liability for both Billy Wright and Highway 59 totaling \$4,548,034 and \$15,468,000 for the 2015 Series A and B Revenue Bonds.

	<u>June 30, 2017</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>June 30, 2018</u>	<u>Amounts Due Within One Year</u>	<u>L-T Debt</u>
Closure and Postclosure	\$ 3,972,275	\$ 575,759	\$ -	\$ 4,548,034	\$ -	\$ 4,548,034
Capital Leases	56,625	-	(56,625)	-	-	-
Net Pension Liability	1,317,670	-	(1,317,670)	-	-	-
2015 Refunding Bond	<u>18,848,000</u>	-	<u>(1,668,000)</u>	<u>17,180,000</u>	<u>1,712,000</u>	<u>15,468,000</u>
Total Long-Term Debt	<u>\$ 24,194,570</u>	<u>\$ 575,759</u>	<u>\$ (3,042,295)</u>	<u>\$ 21,728,034</u>	<u>\$ 1,712,000</u>	<u>\$ 20,016,034</u>

Scheduled debt service payments for a capital lease and the advance refunding of the Solid Waste Revenue Bond totaled \$1,724,625. Net pension liability was eliminated due to zero pensionable payroll and liability per MCERA actuarial reports. Also, an additional \$575,759 in closure and post closure liability was incurred.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Merced County economic indicators are guarded, and while building of homes county-wide continues, home sales have begun to slow. Importation of solid waste has allowed RWA to build its reserves to fund equipment purchases and capital projects. The out-of-county waste streams contributed to the new peak of 495,995 landfilled tons—over 114,000 more tons than the prior year record. During 2017/18, only 233,000 tons originated from Merced County, 17,000 fewer tons than the prior year.

For its 2018/19 budget, projected revenues were based on 345,000 disposed tons. The budget was based on the knowledge that at the time the budget was being developed, more than a third of its total disposed tons were from out-of-county, short-term contracts. Twelve percent more in operating expenses were budgeted to cover expected increase in solid waste fees, professional services, fuel, and staffing. The Authority continues to plan for reserve fund transfers into fleet replacement and capital projects of \$1.75 million.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in the report or request for additional information should be addressed to Nav Bagri, Finance Director, Merced County Association of Governments, 369 W. 18th Street, Merced, CA 95340, or by email at Nav.bagri@mcagov.org.

THIS PAGE IS LEFT BLANK INTENTIONALLY.

BASIC FINANCIAL STATEMENTS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018**

ASSETS

Current assets:

Cash and cash equivalents	\$ 31,869,053
Accounts receivable, net of allowance for doubtful accounts of \$33,602	1,669,880
Due from other agencies	613,291
Prepays	188,336
Supplies inventory	<u>24,810</u>

Total current assets 34,365,370

Noncurrent assets:

Cash and investments - restricted 2,921,967

Capital assets:

Nondepreciable:

Land	1,772,410
Construction in progress	3,148,864

Depreciable assets:

Land improvements	7,981,057
Infrastructure	22,879,138
Buildings and improvements	4,165,801
Machinery and equipment	14,125,809
Less accumulated depreciation	<u>(32,058,254)</u>

Total capital assets, net 22,014,825

Total noncurrent assets 24,936,792

Total assets 59,302,162

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding of debt 1,597,783

Total deferred outflows of resources 1,597,783

Total assets and deferred outflows of resources \$ 60,899,945

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018
(Continued)

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 2,104,914
Interest payable	37,702
Bond payable	1,712,000
Unearned revenue	<u>80,822</u>

Total current liabilities	<u>3,935,438</u>
---------------------------	------------------

Long-term liabilities:

Bond payable	15,468,000
Closure and postclosure care liability	<u>4,548,034</u>

Total long-term liabilities	<u>20,016,034</u>
-----------------------------	-------------------

Total liabilities	<u>23,951,472</u>
-------------------	-------------------

NET POSITION

Net investment in capital assets	6,432,608
Unrestricted	<u>30,515,865</u>

Total net position	<u>36,948,473</u>
--------------------	-------------------

Total liabilities and net position	<u>\$ 60,899,945</u>
------------------------------------	----------------------

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

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

OPERATING REVENUES	
Charges for services	\$ 17,328,265
Other	<u>263,357</u>
Total operating revenues	<u>17,591,622</u>
OPERATING EXPENSES	
Special departmental	784,523
Professional services	4,011,025
Repairs and equipment maintenance	804,136
Rents and leases	33,273
General and administrative	348,232
Utilities	66,172
Pension adjustment	(2,143,698)
Closure and postclosure care costs	575,759
Amortization and depreciation	3,820,008
Bad debt expense	<u>34,053</u>
Total operating expenses	<u>8,333,482</u>
Operating income (loss)	<u>9,258,140</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	424,962
Interest expense	(678,071)
Gain (loss) on disposal of fixed assets	(243,141)
Gain (loss) on investments	(241,780)
Other revenues	<u>24,661</u>
Total nonoperating revenues (expenses)	<u>(713,369)</u>
Change in net position	8,544,771
Net position - beginning	<u>28,403,702</u>
Net position - ending	<u>\$ 36,948,473</u>

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

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 17,304,007
Payments to suppliers	<u>(4,724,919)</u>
Net cash provided (used) by operating activities	<u>12,579,088</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other revenues	<u>24,661</u>
Net cash provided (used) by noncapital financing activities	<u>24,661</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(1,668,000)
Acquisition of capital assets	(5,104,883)
Capital lease payments	(56,625)
Proceeds from the sale of assets	2,201
Interest paid	<u>(504,204)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,331,511)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest and land rentals	424,962
Unrealized (gain) loss on cash equivalents	<u>(241,780)</u>
Net cash provided (used) by investing activities	<u>183,182</u>
Net increase (decrease) in cash and cash equivalents	5,455,420
Cash and cash equivalents - beginning	<u>29,335,600</u>
Cash and cash equivalents - ending	<u><u>\$ 34,791,020</u></u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents	\$ 31,869,053
Cash and investments - restricted	<u>2,921,967</u>
Total cash and cash equivalents	<u><u>\$ 34,791,020</u></u>

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

**Reconciliation of Operating Income (Loss) to Cash Flows Provided
(Used) by Operating Activities**

Operating income (loss)	\$ 9,258,140
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	3,820,008
Bad debt expense	34,053
Closure and postclosure care costs	575,759
(Increase) decrease in:	
Accounts receivable	(286,096)
Inventories	(8,633)
Prepaid items	(79,356)
Deferred outflows of resources for pensions	104,645
Increase (decrease) in:	
Accounts payable and other liabilities	1,410,430
Unearned revenue	(1,519)
Increase in net pension liability	(1,317,670)
Deferred inflows of resources for pensions	<u>(930,673)</u>
Net cash provided (used) by operating activities	<u>\$ 12,579,088</u>

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The cities of Atwater, Dos Palos, Gustine, Livingston, Los Banos, Merced, and County of Merced, have entered in a joint powers agreement to acquire, develop, maintain, and operate disposal sites located in Merced and Los Banos. The Merced County Regional Waste Management Authority (the "Authority") both administers and operates the disposal sites subject to the terms and conditions provided in accordance with such agreements and the authority set forth in California Government Code Section 6508.

The Board of the Authority is composed of the same members as the Board of the Merced County Association of Governments. The Authority contracts with Merced County Association of Governments for administrative and accounting support.

B. Basis of Accounting

The Authority uses an enterprise fund format to report its activities for financial statement purposes. Proprietary Fund Financial Statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs and expenses of providing goods or services to its consumers are financed or recovered primarily through users charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Enterprise funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Balance Sheet. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition. A portion of the Authority's cash is pooled in the treasury of Merced County. The County pools these funds with those of other entities of the County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly in the participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by California Government Code Sections 53601 et. seq., 53635 et. seq., and 53648 et. seq.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Position (Continued)

2. Accounts Receivable

The Authority established an allowance for doubtful accounts receivable which is in compliance with generally accepted accounting principles.

3. Accounts Payable and Accrued Expenses

Certain costs are incurred by the Authority during the current period but are not paid until after the beginning of the next fiscal period. These costs are reported as payables in the financial statements.

4. Restricted Assets

Restricted assets represent monies or other resources, the use of which is restricted by legal or contractual requirements. Restricted cash is considered a cash equivalent for cash flow reporting purposes.

The Closure Fund monies are set aside based on an estimate to cover closure costs to provide financial assurance once the landfill is closed. The Authority entered into an agreement with CALRECYCLE to establish a pledge of revenue to demonstrate financial assurance for post closure maintenance and the most recent corrective action cost estimate of the Highway 59 and Billy Wright Landfills.

5. Capital Assets

Capital assets are recorded at cost or estimated cost where cost is not available. The capitalization threshold for reporting capital assets is \$2,500. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the excess of interest expense over interest earned on invested proceeds from the date of borrowing through project completion. Depletion of the landfill is computed using a ratio of total costs to total volume used. Depreciation and amortization of property, plant and equipment, including capital leases, is computed using the straight-line method applied over estimated useful lives of the assets as follows:

<u>Type of Assets</u>	<u>Estimated Useful Life in Years</u>
Land improvements	10-40
Infrastructure	15-30
Building improvements	30
Machinery and equipment	5-20

6. Supplies Inventory

Supplies Inventory is valued at the lower of cost (determined by first in, first out) or market.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Position (Continued)

7. Net Position

Net position is reported in three categories as follows:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition of capital assets.

Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted – This amount consists of all resources that do not meet the definition of “net investment in capital assets” or “restricted net position.”

8. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash in Banks

Cash and cash equivalents consist only of cash held in a financial banking institution. Cash balances in banks are insured up to \$250,000, per financial institution, by the Federal Depository Insurance Corporation (FDIC). Custodial credit risk is that in the event of a bank failure, the Authority’s deposits will not be returned to it. However, the Authority has a collateralized agreement with Wells Fargo Bank that all government funds deposited are subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code of the State of California (the "Local Agency Deposit Security Law").

Cash and investments at June 30, 2018 consisted of the following:

	Carrying Amount
Cash and cash equivalents	\$ 2,364,401
County of Merced Treasurer's Investment Pool	5,635,748
Total cash and investments	\$ 8,000,146

Cash and investments as of June 30, 2018 were classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 31,869,053
Cash and investments - restricted	2,921,967
Total cash and investments	\$ 34,791,020

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash in County Treasury

The Authority maintains cash in the Merced County Treasury as part of the common investment pool. These pooled funds are carried at cost, which approximates market value. Interest is paid quarterly into the participating funds. Any investment losses are proportionately shared by all funds in the pool. The fair market value of this pool as of June 30, 2018 was provided by the Merced County Treasury.

The County of Merced is authorized to deposit cash and invest excess funds by the *California Government Code* Sections 53601 et. seq., 53635 et. seq., and 53648 et. seq. The County is restricted by *California Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The investment policy for the Merced County Treasury prohibits reverse repurchase agreements and investments in foreign investments.

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 to changes in market interest rate. As of June 30, 2018, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately 438 days.

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. The County of Merced issues a financial report that includes custodial risk disclosures for the Cash in County Treasury. The report may be obtained by writing the Merced County Treasurer, 2222 M Street, Merced, California 95340.

County of Merced Treasurer's Investment Pool consists of cash in the Merced County Treasury as part of the common investment pool. The fair market value of this pool, as provided by the pool sponsor, was \$32,426,129 as of June 30, 2018.

Credit Risk

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. At June 30, 2018, the Authority’s credit risks, expressed on a percentage basis, are as follows:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>S & P's Rating</u>	<u>% of Investments</u>	<u>Amount</u>
County of Merced Treasurer's Investment Pool	Not Rated	Not Rated	<u>100%</u>	<u>\$ 5,635,748</u>
Total			<u>100%</u>	<u>\$ 5,635,748</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Valuation

The Authority 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. Fair value measurements of the Authority's investments are as follows at June 30, 2018:

- Investment in County of Merced Treasurer's Investment Pool: valued at \$32,426,129, the County of Merced Treasurer's investment Pool is accounted for on a cost basis during the year and adjusted to fair value at year-end, the fair market value of this pool as of June 30, 2018 was provided by the Merced County Treasury. The County of Merced Treasurer's invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, it is not an investment type that can be categorized in any particular level in the fair value hierarchy.

NOTE 3 – CAPITAL ASSETS

At June 30, 2018, capital assets consisted of the following:

	Balances June 30, 2017	Additions	Deletions	Balances June 30, 2018
Capital assets, not being depreciated:				
Land reserved for landfill	\$ 1,772,410	\$ -	\$ -	\$ 1,772,410
Construction in progress	<u>919,226</u>	<u>2,229,638</u>	<u>-</u>	<u>3,148,864</u>
Total capital assets, not being depreciated	<u>2,691,636</u>	<u>2,229,638</u>	<u>-</u>	<u>4,921,274</u>
Capital assets, being depleted:				
Land improvements	<u>7,731,295</u>	<u>700,000</u>	<u>(450,238)</u>	<u>7,981,057</u>
Total capital assets, being depleted	<u>7,731,295</u>	<u>700,000</u>	<u>(450,238)</u>	<u>7,981,057</u>
Capital assets, being depreciated:				
Infrastructure	22,879,138	-	-	22,879,138
Buildings and improvements	4,103,143	62,658	-	4,165,801
Machinery and equipment	<u>12,101,153</u>	<u>2,112,586</u>	<u>(87,930)</u>	<u>14,125,809</u>
Total capital assets, being depreciated	<u>39,083,434</u>	<u>2,175,244</u>	<u>(87,930)</u>	<u>41,170,748</u>
Less accumulated depreciation	<u>(28,531,073)</u>	<u>(3,820,008)</u>	<u>292,827</u>	<u>(32,058,254)</u>
Total capital assets, being depreciated, net	<u>10,552,361</u>	<u>(1,644,764)</u>	<u>204,897</u>	<u>9,112,494</u>
Total capital assets	<u>\$ 20,975,292</u>	<u>\$ 1,284,874</u>	<u>\$ (245,341)</u>	<u>\$ 22,014,825</u>

Depreciation expense for the year ended June 30, 2018 was \$3,820,008.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – LONG-TERM DEBT

The following is a schedule of long-term liabilities for the year ended June 30, 2018:

	June 30, 2017	Incurred or Issued	Satisfied or Matured	June 30, 2018	Amounts Due Within One Year
Capital Leases	\$ 56,625	\$ -	\$ (56,625)	\$ -	\$ -
2015 Refunding Bond	<u>18,848,000</u>	<u>-</u>	<u>(1,668,000)</u>	<u>17,180,000</u>	<u>1,712,000</u>
Total	<u>\$ 18,904,625</u>	<u>\$ -</u>	<u>\$ (1,724,625)</u>	<u>\$ 17,180,000</u>	<u>\$ 1,712,000</u>

Solid Waste Revenue Bonds

During the 2007/2008 fiscal year the Merced County Regional Waste Management Authority issued \$33,415,000 in Solid Waste Revenue Bonds, Series 2007 to assist in financing and expansion of Highway 59 and Billy Wright Landfills. On March 31, 2015, the Authority issued \$23,572,000, 2015 Solid Waste Revenue Refunding Bonds, Series A & B and used internal reserve sources to refund the outstanding amount of \$25,460,000 of the Series 2007 Solid Waste Revenue Bonds. The difference between the cash flows required to service the 2007/2008 Series Bonds and the cash flows required to service the new 2015 Refunding Bonds and complete the refunding resulted in savings of \$5,847,511. The net present value of the savings adjusted for additional cash paid of \$4,425,384 was \$584,821.

Terms of the agreement for the 2015 Solid Waste Revenue Refunding Bonds, Series A & B require the Authority to pay interest due payable on June 1 and December 1 of each year commencing June 1, 2015. Interest rate is 2.67%. The annual installment payments range from \$1,510,000 beginning on June 1, 2015 to \$2,505,000 on June 1, 2027.

Debt service requirements to maturity are as follows for the year ended June 30, 2018:

Years Ending June 30,	Principal	Interest	Total
2019	\$ 1,712,000	\$ 458,706	\$ 2,170,706
2020	1,763,000	412,996	2,175,996
2021	1,805,000	365,924	2,170,924
2022	1,854,000	317,730	2,171,730
2023	1,905,000	268,228	2,173,228
Thereafter	<u>8,141,000</u>	<u>550,449</u>	<u>8,691,449</u>
Total	<u>\$ 17,180,000</u>	<u>\$ 2,374,033</u>	<u>\$ 19,554,033</u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – LONG-TERM DEBT (Continued)

Capital Leases

The Authority has entered into lease agreements as lessee for financing the acquisition of various equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date of each respective lease. At June 30, 2018, the Authority included the following amounts that have been capitalized under lease purchase agreements:

Machinery and equipment	\$ 7,383,008
Less accumulated depreciation	<u>(6,698,868)</u>
Total	<u>\$ 684,140</u>

The lease obligation was met during the year ended June 30, 2018.

NOTE 5 – LANDFILL CLOSURE AND POSTCLOSURE COST

The Authority accounts for closure and postclosure care costs in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. State and Federal laws and regulations require the Authority to place a final cover on its site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Authority reports a portion of these closure and postclosure care costs as an operating expense and liability in each period based on landfill capacity used as of each balance sheet date.

The amount of \$4,548,034 reported as landfill closure and postclosure care liability, at June 30, 2018, represents the cumulative amount reported to date based on the landfill capacity used to date, calculated at 30% and 9% for Highway 59 and Billy Wright Landfills, respectively, at June 30, 2018. The Authority will recognize the remaining estimated cost of closure and postclosure care of \$23,605,914 as the remaining estimated capacity is filled over the estimated 36-56 years remaining at June 30, 2018. This amount is based on current estimates of remaining closure and postclosure care costs at June 30, 2018. Actual costs may be higher when the landfill closes due to inflation, changes in technology, or changes in regulations.

The Authority is required by State and Federal laws to finance closure and postclosure care costs. The Authority expects that future user fees and interest earnings over the remaining landfill life will fund the closure and postclosure liabilities.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors or omissions, injuries to employees; and natural disaster. The Authority provides coverage for these losses through commercial insurance policies.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. Management expects any ongoing costs associated with the corrective action will be minimal and likely be part of normal operating expenses. In the opinion of management, based upon discussions with legal counsel, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

NOTE 8 – PENSION PLANS

Plan Descriptions – Merced County Employees Retirement Association (MCERA) was established on July 1, 1950 by vote of the County electorate under and subject to the legislative authority of the State of California as enacted and amended in the County Retirement Act of 1937 (1937 Act). Management of MCERA is vested in the Retirement Board, consisting of nine members and two alternates. Day-to-day management of MCERA is vested in a Plan Administrator who is appointed by and serves at the direction of the Retirement Board. MCERA is a cost-sharing multi-employer contributory defined benefit plan covering all permanent full-time and permanent part-time employees of Merced County, Superior Court, the Merced Cemetery District, the Transit Joint Powers Authority and the Merced County Regional Waste Management Authority for Merced County. Coverage is optional to employees hired after age 60 and elected officials. MCERA issues a publicly available financial report that includes financial statements and the required supplementary information. The complete Comprehensive Annual Financial Report for MCERA may be obtained by contacting the Merced County Employees Association at 3199 “M” Street, Merced, California 95340.

The Authority last employed individuals covered by the MCERA defined benefit pension plan in 2016 and has not participated in the plan since then. Per GASB 68, a one-year payroll “look-back” period is used to determine current year net pension liability (in this case, 2017). MCERA’s latest actuarial report, dated June 30, 2016, confirms that the Authority has zero pensionable payroll. Since net pension liability is calculated based on pensionable payroll per GASB 68, net pension liability is also zero. The appropriate adjustments to net liability, deferred inflows of resources, and pension expense have been made to eliminate prior year liability.

OTHER AUDITOR'S REPORT

THIS PAGE IS LEFT BLANK INTENTIONALLY.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Governing Board of the
Merced County Regional Waste
Management Authority
Merced, 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 Merced County Regional Waste Management Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 8, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540

fax 559.299.2344

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 Merced County Regional Waste Management Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
January 8, 2019

FINDINGS AND QUESTIONED COSTS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weaknesses identified?	_____ yes <u> X </u> no
Significant deficiencies identified that are considered to be material weaknesses?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

None reported.