

**MERCED COUNTY REGIONAL WASTE
MANAGEMENT AUTHORITY**

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

**For the Years Ended
June 30, 2010 and 2009**

COUNTY OF MERCED
MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
June 30, 2010 and 2009

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Basic Financial Statements:	
Statements of Net Assets	2
Statements of Revenues, Expenses, and Changes in Fund Net Assets	4
Statements of Cash Flows	5
Notes to the Basic Financial Statements	7
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>	17
Schedule of Findings and Questioned Costs	19
Status of Prior Year Findings and Questioned Costs	20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merced County Regional Waste Management Authority

We have audited the accompanying financial statements of the Merced County Regional Waste Management Authority, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Merced County Regional Waste Management Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 that our audits provide a reasonable basis for our 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, at June 30, 2010 and 2009, and the results of its operations and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of the Merced County Regional Waste Management Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Merced County Regional Waste Management Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is required supplementary information, although not required to be part of, the basic financial statements.

Price Paige & Company

Clovis, California
October 18, 2010

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 7,596,283	\$ 6,654,146
Cash and cash equivalents - restricted	32,345,063	36,494,728
Accounts receivable, net of allowance for doubtful accounts of \$15,015 and \$11,290	747,821	743,827
Due from the County of Merced	709	1,311
Deferred charges	761,296	806,078
Supplies inventory	<u>21,433</u>	<u>34,807</u>
Total current assets	<u>41,472,605</u>	<u>44,734,897</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable:		
Land	1,745,710	1,745,710
Construction in progress	15,114,285	14,508,214
Depreciable:		
Land improvements	6,919,043	6,919,043
Infrastructure	964,457	953,284
Buildings and improvements	76,228	76,228
Machinery and equipment	13,525,444	15,181,811
Less accumulated depreciation	<u>(10,502,088)</u>	<u>(10,957,565)</u>
Total capital assets, net	<u>27,843,079</u>	<u>28,426,725</u>
Total noncurrent assets	<u>27,843,079</u>	<u>28,426,725</u>
Total assets	<u>\$ 69,315,684</u>	<u>\$ 73,161,622</u>

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 924,581	\$ 894,160
Interest payable	144,625	151,135
Due to the County of Merced	155,223	5,471
Bond payable	1,300,000	1,255,000
Capital lease obligations	<u>1,301,617</u>	<u>1,546,576</u>
Total current liabilities	<u>3,826,046</u>	<u>3,852,342</u>
Long-term liabilities:		
Bond payable	29,584,539	30,880,688
Capital lease obligations	2,697,125	3,998,638
Closure and postclosure care liability	<u>10,010,681</u>	<u>11,073,885</u>
Total long-term liabilities	<u>42,292,345</u>	<u>45,953,211</u>
Total liabilities	<u>46,118,391</u>	<u>49,805,553</u>
Net assets:		
Invested in capital assets, net of related debt	11,917,705	11,337,732
Restricted	6,602,771	6,845,013
Unrestricted	<u>4,676,817</u>	<u>5,173,324</u>
Total net assets	<u>23,197,293</u>	<u>23,356,069</u>
Total liabilities and net assets	<u>\$ 69,315,684</u>	<u>\$ 73,161,622</u>

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for services	\$ 8,017,975	\$ 7,655,466
Other	134,609	201,031
Total operating revenues	8,152,584	7,856,497
OPERATING EXPENSES		
Special departmental	519,637	496,593
Professional services	4,377,666	5,128,623
Repairs and maintenance	791,853	1,208,266
Rents and leases	18,918	33,129
General and administrative	208,092	216,417
Utilities	5,641	26,254
Closure and postclosure care costs	(206,217)	881,720
Depletion and depreciation	1,515,263	952,246
Total operating expenses	7,230,853	8,943,248
Operating income (loss)	921,731	(1,086,751)
NONOPERATING REVENUES (EXPENSES)		
Interest income	354,576	858,074
Amortization of bond issuance costs	(44,782)	(44,782)
Interest expense	(1,634,955)	(1,744,098)
Sale of fixed assets	241,475	1,538
Gain (loss) on disposal of assets	(20,814)	(67,437)
Other revenues	23,994	22,463
Total nonoperating revenues (expenses)	(1,080,506)	(974,242)
Other financing sources (uses):		
Capital contributions	-	176,387
Total other financing sources (uses)	-	176,387
Changes in net assets	(158,775)	(1,884,606)
Net assets - beginning	23,356,068	25,240,675
Net assets - ending	\$ 23,197,293	\$ 23,356,069

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from users	\$ 8,013,981	\$ 7,921,936
Cash paid to suppliers	(5,599,438)	(7,075,607)
Other receipts	<u>134,609</u>	<u>201,031</u>
Net cash provided by (used in) operating activities	<u>2,549,152</u>	<u>1,047,360</u>
Cash flows from noncapital financing activities:		
Proceeds received from government grants	<u>23,994</u>	<u>22,463</u>
Net cash provided by (used in) noncapital financing activities	<u>23,994</u>	<u>22,463</u>
Cash flows from capital and related financing activities:		
Sale of fixed assets	241,474	1,535
Capital lease payments	(1,546,471)	(991,965)
Acquisition and construction of property and equipment	(1,937,639)	(1,758,858)
Principal payment	(1,255,000)	(1,210,000)
Interest paid	<u>(1,637,614)</u>	<u>(1,600,972)</u>
Net cash provided by (used in) capital and related financing activities	<u>(6,135,250)</u>	<u>(5,560,260)</u>
Cash flows from investing activities:		
Interest received on investments	<u>354,576</u>	<u>858,074</u>
Net cash provided by (used in) investing activities	<u>354,576</u>	<u>858,074</u>
Net increase (decrease) in cash and cash equivalents	(3,207,528)	(3,632,363)
Cash and cash equivalents, beginning	<u>43,148,874</u>	<u>46,781,237</u>
Cash and cash equivalents, ending	<u>\$ 39,941,346</u>	<u>\$ 43,148,874</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Disposal of capital assets	\$ 20,814	\$ 67,437
Capital contributions	-	176,387
Fixed assets acquired under capital leases	-	3,893,673
Total noncash capital and related financing activities	<u>\$ 20,814</u>	<u>\$ 4,137,497</u>

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

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 921,731	\$ (1,086,751)
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:		
Construction in progress reclassified as expenses	985,208	316,710
Depletion and depreciation	1,515,263	952,246
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,994)	266,470
(Increase) decrease in amount due from the County of Merced	602	13,670
(Increase) decrease in supplies inventory	13,374	34,483
Increase (decrease) in accounts payable	30,420	(293,978)
Increase (decrease) in amount due to the County of Merced	149,752	(37,209)
Increase (decrease) in closure and postclosure care liability	<u>(1,063,204)</u>	<u>881,719</u>
Net cash provided by (used in) operating activities	<u>\$ 2,549,152</u>	<u>\$ 1,047,360</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, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The cities of Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced have entered in a joint powers agreement with the County of Merced to acquire, develop, and maintain, and operate disposal sites and related Solid Waste processing facilities. The Merced County Regional Waste Management Authority (the "Authority") administers the operations subject to the terms and conditions provided in accordance with such agreements and the authority set forth in California Government Code Section 6508. The Authority has designated the County of Merced, Solid Waste Division as the "Operator" of the disposal sites and related facilities. In its capacity as "Operator", subject to policy direction by the Authority Board, the County of Merced manages, operates, and administers the Facilities and executes the Solid Waste Recycling and Disposal responsibilities associated therewith.

B. Basis of Accounting

Pursuant to Governmental Accounting Standards Board (GASB) Standard No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all Financial Accounting Standards Board (FASB) statement and authoritative pronouncements issued before November 30, 1989, are applied to proprietary operations unless they conflict with GASB pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Proprietary Fund Financial Statements include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, 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 Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. 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 non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating 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.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Authority's cash is deposited in the County of Merced investment pool. The County of Merced allocates interest to the Authority's ending cash balances on a monthly basis.

2. Accounts Receivable

The Authority established an allowance for uncollectible accounts receivable which is in compliance with generally accepted accounting principles. The Authority recorded a total of \$15,015 and \$11,290 of allowance for uncollectible accounts during the fiscal years ended June 30, 2010 and 2009, respectively.

3. Accounts Payable

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. The Authority's current accounts payable balance of \$924,581 and \$894,160 as of June 30, 2010 and 2009, respectively, is related to certain contract services and payments for utility fees.

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/Postclosure Fund monies are set aside based on an estimate to cover closure costs and 30 years of postclosure maintenance cost to provide financial assurance once the landfill is closed.

The Authority Expansion Fund monies are restricted for the construction of future modules in the Phase II area and required landfill systems (i.e., landfill gas control, groundwater monitoring systems, and Leachate treatment).

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Net Assets (continued)

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.

7. Net Assets

Net assets are reported in three categories as follows:

Invested in capital assets, net of related debt – 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 net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

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.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – CASH AND INVESTMENTS

The Authority maintains all of its cash deposits with the Merced County Auditor-Controller/Treasurer and participates in the common investment pool of the County. The County is restricted by State Code in the types of investments it can make. Further, the County has a written investment policy, approved by the County's Board of Supervisors, which is more restrictive than the State Code as to terms of maturity and type of investment.

Cash at June 30, 2010 and 2009, consists of the following:

	<u>Credit Quality Ratings</u>	<u>2010 Carrying Amount</u>	<u>2009 Carrying Amount</u>
County of Merced Treasurer's Investment Pool	Not Rated	\$ 21,101,096	\$ 22,770,068
Cash with Fiscal Agent		<u>18,840,250</u>	<u>20,378,806</u>
Total cash and investments		<u>\$ 39,941,346</u>	<u>\$ 43,148,874</u>

Cash and cash equivalents as of June 30, 2010 and 2009, are classified in the accompanying financial statements as follows:

	<u>2010</u>	<u>2009</u>
Statement of Net Assets:		
Cash and cash equivalents	\$ 7,596,283	\$ 6,654,146
Restricted cash and investments	<u>32,345,063</u>	<u>36,494,728</u>
Total cash and cash investments	<u>\$ 39,941,346</u>	<u>\$ 43,148,874</u>

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 to changes in market interest rates. The Authority has no investments at year-end.

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. At June 30, 2010 and 2009, the Authority's credit risks, expressed on a percentage basis, are as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>S & P's Rating</u>	<u>% of Investments</u>
County of Merced Treasurer's Investment Pool	Not Rated	Not Rated	<u>100%</u>
Total			<u><u>100%</u></u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – CAPITAL ASSETS

At June 30, 2010, capital assets consisted of the following:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land reserved for landfill	\$ 1,745,710	\$ -	\$ -	\$ 1,745,710
Construction in progress	<u>14,508,214</u>	<u>1,591,279</u>	<u>(985,208)</u>	<u>15,114,285</u>
Total capital assets, not being depreciated	<u>16,253,924</u>	<u>1,591,279</u>	<u>(985,208)</u>	<u>16,859,995</u>
Capital assets, being depleted:				
Land improvements	<u>6,919,043</u>	<u>-</u>	<u>-</u>	<u>6,919,043</u>
Total capital assets, being depleted	<u>6,919,043</u>	<u>-</u>	<u>-</u>	<u>6,919,043</u>
Capital assets, being depreciated:				
Infrastructure	953,284	11,173	-	964,457
Buildings and improvements	76,228	-	-	76,228
Machinery and equipment	<u>15,181,811</u>	<u>346,360</u>	<u>(2,002,727)</u>	<u>13,525,444</u>
Total capital assets, being depreciated	<u>16,211,323</u>	<u>357,533</u>	<u>(2,002,727)</u>	<u>14,566,129</u>
Less: accumulated depreciation	<u>(10,957,565)</u>	<u>(1,515,263)</u>	<u>1,970,740</u>	<u>(10,502,088)</u>
Total capital assets, being depreciated, net	<u>5,253,758</u>	<u>(1,157,730)</u>	<u>(31,987)</u>	<u>4,064,041</u>
Total capital assets	<u>\$ 28,426,725</u>	<u>\$ 433,549</u>	<u>\$ (1,017,195)</u>	<u>\$ 27,843,079</u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – CAPITAL ASSETS (continued)

At June 30, 2009, capital assets consisted of the following:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land reserved for landfill	\$ 1,811,503	\$ -	\$ (65,793)	\$ 1,745,710
Construction in progress	<u>13,869,551</u>	<u>1,660,400</u>	<u>(1,021,737)</u>	<u>14,508,214</u>
Total capital assets, not being depreciated	<u>15,681,054</u>	<u>1,660,400</u>	<u>(1,087,530)</u>	<u>16,253,924</u>
Capital assets, being depleted:				
Land improvements	<u>6,678,409</u>	<u>259,728</u>	<u>(19,094)</u>	<u>6,919,043</u>
Total capital assets, being depleted	<u>6,678,409</u>	<u>259,728</u>	<u>(19,094)</u>	<u>6,919,043</u>
Capital assets, being depreciated:				
Infrastructure	342,772	610,512	-	953,284
Buildings and improvements	76,228	-	-	76,228
Machinery and equipment	<u>11,182,447</u>	<u>4,003,305</u>	<u>(3,941)</u>	<u>15,181,811</u>
Total capital assets, being depreciated	<u>11,601,447</u>	<u>4,613,817</u>	<u>(3,941)</u>	<u>16,211,323</u>
Less: accumulated depreciation	<u>(10,026,713)</u>	<u>(952,245)</u>	<u>21,393</u>	<u>(10,957,565)</u>
Total capital assets, being depreciated, net	<u>1,574,734</u>	<u>3,661,572</u>	<u>17,452</u>	<u>5,253,758</u>
Total capital assets	<u>\$ 23,934,197</u>	<u>\$ 5,581,700</u>	<u>\$ (1,089,172)</u>	<u>\$ 28,426,725</u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 – LONG-TERM DEBT

The following is a schedule of long-term liabilities for the year ended June 30, 2010:

	June 30, 2009	Incurred or Issued	Satisfied or Matured	June 30, 2010	Amounts Due Within One Year
Closure and Postclosure	\$ 11,073,885	\$ -	\$ (1,063,204)	\$ 10,010,681	\$ -
Capital Leases	5,545,214	-	(1,546,471)	3,998,742	1,301,617
Solid Waste Revenue Bond	32,205,000	-	(1,255,000)	30,950,000	1,300,000
Less: Bond Discount	<u>(69,312)</u>	<u>-</u>	<u>3,851</u>	<u>(65,461)</u>	<u>-</u>
Total	<u>\$ 48,754,787</u>	<u>\$ -</u>	<u>\$ (3,860,824)</u>	<u>\$ 44,893,962</u>	<u>\$ 2,601,617</u>

The following is a schedule of long-term liabilities for the year ended June 30, 2009:

	June 30, 2008	Incurred or Issued	Satisfied or Matured	June 30, 2009	Amounts Due Within One Year
Closure and Postclosure	\$ 10,192,166	\$ 881,719	\$ -	\$ 11,073,885	\$ -
Capital Leases	2,643,506	3,893,669	(991,961)	5,545,214	1,546,576
Solid Waste Revenue Bond	33,415,000	-	(1,210,000)	32,205,000	1,255,000
Less: Bond Discount	<u>(73,163)</u>	<u>-</u>	<u>3,851</u>	<u>(69,312)</u>	<u>-</u>
Total	<u>\$ 46,177,509</u>	<u>\$ 4,775,388</u>	<u>\$ (2,198,110)</u>	<u>\$ 48,754,787</u>	<u>\$ 2,801,576</u>

Landfill Closure and Postclosure Costs

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 amounts of \$10,010,681 and \$11,073,885 reported as landfill closure and postclosure care liability at June 30, 2010 and 2009, respectively, represent the cumulative amount reported to date based on the landfill capacity used to date, calculated at 34% and 36% at June 30, 2010 and 2009, respectively. The Authority will recognize the remaining estimated cost of closure and postclosure care of \$19,866,061 and \$20,004,430 as the remaining estimated capacity is filled over the estimated 2-42 years remaining at June 30, 2010 and 2009, respectively. These amounts are based on current estimates of remaining closure and postclosure care costs at June 30, 2010 and 2009. Actual costs may be higher when the landfill closes due to inflation, changes in technology, or changes in regulations.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 – LONG-TERM DEBT (continued)

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.

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. Terms of the agreement require the Authority to pay interest due payable on June 1 and December 1 of each year commencing December 1, 2007. Interest rates range from 3.50% and 4.625%. The annual installment payments range from \$1,210,000 beginning on June 1, 2009 to \$2,505,000 on June 1, 2027, a sum total of \$33,415,000 due June 1, 2027.

Debt service requirements to maturity are as follows for the year ended June 30, 2010:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,300,000	\$ 1,324,853	\$ 2,624,853
2012	1,345,000	1,277,728	2,622,728
2013	1,395,000	1,227,290	2,622,290
2014	1,450,000	1,171,490	2,621,490
2015	1,510,000	1,115,303	2,625,303
2016-2020	8,525,000	4,589,807	13,114,807
2021-2025	10,525,000	2,589,199	13,114,199
2026-2027	<u>4,900,000</u>	<u>342,481</u>	<u>5,242,481</u>
Less: Bond Discount	<u>(65,461)</u>	<u>-</u>	<u>(65,461)</u>
Total	<u>\$ 30,884,539</u>	<u>\$ 13,638,151</u>	<u>\$ 44,522,690</u>

Debt service requirements to maturity are as follows for the year ended June 30, 2009:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,255,000	\$ 1,370,346	\$ 2,625,346
2011	1,300,000	1,324,853	2,624,853
2012	1,345,000	1,277,728	2,622,728
2013	1,395,000	1,227,290	2,622,290
2014	1,450,000	1,171,490	2,621,490
2015-2019	8,185,000	4,929,725	13,114,725
2020-2024	10,080,000	3,034,683	13,114,683
2025-2027	<u>7,195,000</u>	<u>672,381</u>	<u>7,867,381</u>
Less: Bond Discount	<u>(69,312)</u>	<u>-</u>	<u>(69,312)</u>
Total	<u>\$ 32,135,688</u>	<u>\$ 15,008,496</u>	<u>\$ 47,144,184</u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010 and 2009, the Authority included the following amounts that have been capitalized under lease purchase agreements:

	<u>2010</u>	<u>2009</u>
Machinery and equipment	\$ 6,800,890	\$ 7,842,845
Less: accumulated depreciation	<u>(1,840,475)</u>	<u>(1,450,410)</u>
Total	<u>\$ 4,960,415</u>	<u>\$ 6,392,435</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Year Ended June 30:		
2010	\$ -	\$ 1,813,581
2011	1,489,646	1,489,488
2012	1,223,534	1,223,375
2013	1,042,719	1,042,560
2014	<u>633,505</u>	<u>633,348</u>
Total future minimum lease payments	4,389,404	6,202,352
Less: amount representing interest	<u>(390,662)</u>	<u>(657,138)</u>
Present value of minimum lease payments	<u>\$ 3,998,742</u>	<u>\$ 5,545,214</u>

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority provides coverage for these losses through commercial insurance policies and/or through participation in the County of Merced's Self-Insurance Program. Refer to the County of Merced CAFR for additional information.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse affect on the financial position of the Authority.



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

To the Board of Directors
County of Merced, California

We have audited the financial statements of the Merced County Regional Waste Management Authority (the Authority), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Authority's basic financial statements and have issued our reports thereon dated October 18, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting, as it relates to the Authority, as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2010-01 and 2010-02 and in the status of prior year findings and questioned costs as item 2009-01, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

Price Pange & Company

Clovis, California
October 18, 2010

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
Merced, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2010-01

Condition: While the Authority maintains control over the processing of accounting transactions, there are not sufficient controls over the preparation of the GAAP-based financial statements sufficient for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Effect: Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause: Due to change of audit procedures dictated by Statement of Auditing Standards No. 115, issued by the American Institute of Certified Public Accountants Auditing Standards Board, a long-standing practice of contracting with the audit firm to produce financial statements has come under scrutiny.

Criteria: The Authority is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Authority's internal controls over GAAP financial reporting should include personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP-based financial statements to ensure that they are free of material misstatements and include all disclosure omissions in a timely manner.

Recommendation: As part of its internal control over the preparation of its financial statements, including disclosures, the Authority should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Authority's activities and operations.

Client Response: The Authority will look into hiring a CPA consultant to review the Solid Waste Authority transactions quarterly and provide the Authority year-end closing and financial statement preparation assistance.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
Merced, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

SECTION I – FINANCIAL STATEMENT FINDINGS (continued)

Finding 2010-02

Condition: Disbursements lacked authorization by Solid Waste personnel prior to disbursements.

Cause: Solid Waste did not monitor or review accountant's work for proper coding.

Criteria: Internal Controls

Recommendation: We recommend that the Authority institute a quality control monitoring policy to ensure that disbursements are properly authorized and accounted for.

Client Response: The Authority will recommend to the County that the Solid Waste manager approve all expenditures and disbursements, and verify the coding for each before they are processed and paid.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
Merced, California

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2009-01

Condition: Disbursements lacked adequate documentation and/or lacked authorization of adequate review by Solid Waste personnel.

Effect: Out of 157 disbursements tested, we noted the following instances of noncompliance:

1. Eight disbursements were not authorized for payment by Solid Waste.
2. Sixty-two disbursements did not indicate that Solid Waste approved the payments.
3. One disbursement was not coded to the proper accounts.

Cause: Solid Waste did not monitor or review accountant's work for proper coding.

Criteria: Internal Controls

Recommendation: We recommend that the Authority institute a quality control monitoring policy to ensure that disbursements are properly authorized and accounted for.

Client Response: The Authority will recommend to the County that the Solid Waste Manager approve all expenditures and disbursements, and verify the coding for each before they are processed and paid.

Status: Partially implemented; see current year finding

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
Merced, California

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Finding 2009-02

Condition: While the Authority maintains control over the processing of accounting transactions, there are not sufficient controls over the preparation of the GAAP-based financial statements sufficient for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Effect: Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause: Due to change of audit procedures dictated by Statement of Auditing Standards No. 115, issued by the American Institute of Certified Public Accountants Auditing Standards Board, a long-standing practice of contracting with the audit firm to produce financial statements has come under scrutiny.

Criteria: The Authority is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Authority's internal controls over GAAP financial reporting should include personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP-based financial statements to ensure that they are free of material misstatements and include all disclosure omissions in a timely manner.

Recommendation: As part of its internal control over the preparation of its financial statements, including disclosures, the Authority should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Authority's activities and operations.

Client Response: The Authority will look into hiring a CPA consultant to review the Solid Waste Authority transactions quarterly and provide the Authority year-end closing and financial statement preparation assistance.

Status: Not implemented; see current year finding