

**MERCED COUNTY REGIONAL WASTE
MANAGEMENT AUTHORITY**

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

**FOR THE YEAR ENDED
JUNE 30, 2017**

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
JUNE 30, 2017

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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, 2017, 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.

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Clovis, CA 93612

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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, 2017, 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, the Proportionate Share of Net Pension Liability on page 30, and the Schedule of Contributions on page 31 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 December 14, 2017, 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
December 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017. 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 2016/17 fiscal year by \$28,403,702--\$3.2 million more than the prior year. Of this amount, \$24,557,721 (unrestricted net position) may be used to meet ongoing obligations to creditors. Net investment in capital assets totaled \$3,845,981.
- The Authority's net position increased by almost \$3.2 million during the fiscal year ended June 30, 2017. Operating revenues exceeded budgeted expenses by \$3.7 million.
- Debt service payments for capital leases and bonds, as well as a significant reduction in pensionable wages reduced long term liability by \$2.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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 17-28 of this report.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 \$28.4 million. The 17.9% increase in current assets is attributed to a growth in pooled cash and investments of \$4.3 million over the prior fiscal year. Depreciation expense of \$4 million exceeded capital asset additions of \$822,000, resulting in a net decrease of \$3 million.

	MCRWMA NET POSITION						
	<u>2017</u>	\$	%	<u>2016</u>	\$	%	<u>2015</u>
Current and other assets	\$ 31,491,886	\$ 4,776,384	17.9%	\$ 26,715,502	\$ 2,785,963	11.6%	\$ 23,929,539
Capital assets	<u>20,975,292</u>	<u>(3,044,934)</u>	-12.7%	<u>24,020,226</u>	<u>(3,260,442)</u>	-12.0%	<u>27,280,668</u>
Total assets	<u>52,467,178</u>	<u>1,731,450</u>	3.4%	<u>50,735,728</u>	<u>(474,479)</u>	-0.9%	<u>51,210,207</u>
Total deferred outflows of resources	<u>1,879,959</u>	<u>(229,245)</u>	-10.9%	<u>2,109,204</u>	<u>(211,141)</u>	-9.1%	<u>2,320,345</u>
Current liabilities:	2,542,817	(1,012)	0.0%	2,543,829	(319,567)	-11.2%	2,863,396
Long-term liabilities	<u>22,469,945</u>	<u>(1,757,931)</u>	-7.3%	<u>24,227,876</u>	<u>(1,970,029)</u>	-7.5%	<u>26,197,905</u>
Total liabilities	<u>25,012,762</u>	<u>(1,758,943)</u>	-6.6%	<u>26,771,705</u>	<u>(2,289,596)</u>	-7.9%	<u>29,061,301</u>
Total deferred inflows of resources	<u>930,673</u>	<u>106,411</u>	12.9%	<u>824,262</u>	<u>213,940</u>	35.1%	<u>610,322</u>
Net investment in capital assets	3,845,981	(1,462,084)	-27.5%	5,308,065	(1,851,974)	-25.9%	7,160,039
Unrestricted	<u>24,557,721</u>	<u>4,616,821</u>	23.2%	<u>19,940,900</u>	<u>3,242,010</u>	19.4%	<u>16,698,890</u>
Total net position	<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>

The Authority was able to satisfy its current year debt service payments for a capital lease and bond. These, along with a reduction in net pension liability of \$466,000, reduced long-term liabilities by 7%.

Investments in capital assets (land, structures, improvements, equipment, and construction in progress) make up 14% of the Authority's net position, less any related debt used to acquire those assets that were still outstanding.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 10% of the Authority's net position. Actual available closure funds of \$2,841,776 are netted against a closure/post closure liability of \$3,972,275. The difference of \$1,130,499 must be covered by unrestricted net position. The remaining unrestricted net position (\$24,557,721) 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.

Service charges, or landfill tipping fee revenue, increased by 15% over the prior fiscal year, largely due to various short term contracts at both sites. Decreases in the market price for electronic waste resulted in an 8% drop in other operating revenues.

Total operating expenses were stable in comparison to the prior year. However, by excluding non-cash expenses such as bad debt, amortization/depreciation, and closure/post closure expense, "true" operating costs increased by nearly \$1 million. In July of 2016, RWA ceased to directly employ staff. All staffing is provided by the Merced County Association of Governments, and all related costs are reflected under professional services. The Authority last participated in a multi-employer cost sharing pension plan in 2016. The significant reduction in pensionable payroll reduced RWA's portion of net pension liability. This triggered the need for a negative, non-cash adjustment of \$307,924 to pension expense under professional services. Increased integrated waste taxes and regulatory agency fees resulted in a 17% rise in special department expense. The costs of hauling, disposal and processing of tires, appliances, and other materials, as well as more state-mandated monitoring and reporting have led to the nearly 40% surge in professional services. Price increases have resulted in higher costs for rented/leased items and utilities. Closure and post closure expense was recorded per GASB 18; however, a pledge of revenue agreement with Cal Recycle allowed the minimum deposit of \$60,053 into the appropriate closure funds. The Authority is on a wait and see mode as it monitors the effectiveness of the corrective action implemented to solve the gas migration issue at the Hwy 59 landfill in 2016; there were no corrective action costs for this year.

Pooled cash and investment balances increased by over \$4 million; this resulted in 75% more in interest earned over the prior year. A fair market value of just under 100% in the Authority's invested funds led to an investment loss of approximately \$53,000.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Activities: The following table summarizes the comparative changes in net position for the Authority's activities for the fiscal years ended June 30, 2017, 2016 and 2015.

	<u>CHANGES IN NET POSITION</u>						
	<u>2017</u>	<u>\$</u>	<u>%</u>	<u>2016</u>	<u>\$</u>	<u>%</u>	<u>2015</u>
OPERATING REVENUES							
Charges for services	\$ 13,603,823	\$ 1,801,900	15.3%	\$ 11,801,923	\$ 432,537	3.8%	\$ 11,369,386
Other	<u>271,958</u>	<u>(22,904)</u>	-7.8%	<u>294,862</u>	<u>96,037</u>	48.3%	<u>198,825</u>
Total operating revenues	<u>13,875,781</u>	<u>1,778,996</u>	14.7%	<u>12,096,785</u>	<u>528,574</u>	4.6%	<u>11,568,211</u>
OPERATING EXPENSES							
Personnel services	-	(267,031)	-100.0%	267,031	(402,845)	-60.1%	669,876
Special departmental	615,100	88,758	16.9%	526,342	14,822	2.9%	511,520
Professional services	3,950,590	854,542	27.6%	3,096,048	496,575	19.1%	2,599,473
Repairs and equipment maintenance	694,636	(14,488)	-2.0%	709,124	5,351	0.8%	703,773
Rents and leases	10,702	1,664	18.4%	9,038	1,433	18.8%	7,605
General and administrative	396,167	25,427	6.9%	370,740	24,057	6.9%	346,683
Utilities	71,155	9,575	15.5%	61,580	5,411	9.6%	56,169
Closure and postclosure care costs	432,743	83,098	23.8%	349,645	(66,196)	-15.9%	415,841
Corrective action costs	-	(358,647)	0.0%	358,647	358,647	0.0%	-
Amortization and depreciation	4,019,960	(440,892)	-9.9%	4,460,852	75,779	1.7%	4,385,073
Bad debt expense (recovery)	<u>8,214</u>	<u>10,115</u>	-532.1%	<u>(1,901)</u>	<u>(1,901)</u>	0.0%	<u>-</u>
Total operating expenses	<u>10,199,267</u>	<u>(7,879)</u>	-0.1%	<u>10,207,146</u>	<u>511,133</u>	5.3%	<u>9,696,013</u>
Operating income (loss)	<u>3,676,514</u>	<u>1,786,875</u>	94.6%	<u>1,889,639</u>	<u>17,441</u>	0.9%	<u>1,872,198</u>
NONOPERATING REVENUES (EXPENSES)							
Interest income	256,020	110,019	75.4%	146,001	44,370	43.7%	101,631
Interest expense	(724,630)	45,342	-5.9%	(769,972)	39,330	-4.9%	(809,302)
Gain (loss) on investments	(53,148)	(177,516)	-142.7%	124,368	88,940	251.0%	35,428
Debt Issuance Costs	-	-	-	-	272,150	-100.0%	(272,150)
Other revenues	<u>(19)</u>	<u>(19)</u>	-	<u>-</u>	<u>(98,032)</u>	-100.0%	<u>98,032</u>
Total nonoperating revenues (expenses)	<u>(521,777)</u>	<u>(22,174)</u>	4.4%	<u>(499,603)</u>	<u>346,758</u>	-41.0%	<u>(846,361)</u>
Changes in net position	3,154,737	1,764,701	127.0%	1,390,036	364,199	35.5%	1,025,837
Net position - beginning	25,248,965	1,390,036	5.8%	23,858,929	(1,858,724)	-7.2%	25,717,653
Prior period adjustments	<u>-</u>	<u>-</u>	-	<u>-</u>	<u>2,884,561</u>	0.0%	<u>(2,884,561)</u>
Net position - ending	<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>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2017, the Authority's capital assets (net of accumulated depreciation) totaled \$20,975,292, 13% less than the \$24,020,226 at June 30, 2016.

The following table summarizes the changes in capital assets for the fiscal years ended June 30, 2017, 2016 and 2015:

	<u>CHANGES IN CAPITAL ASSETS</u>					
	<u>2017</u>	<u>%</u>	<u>2016</u>	<u>%</u>	<u>2015</u>	
Land	\$ 1,772,410	1.5%	\$ 1,745,710	0.0%	\$ 1,745,710	
Land improvements	7,731,295	0.0%	7,731,295	0.0%	7,731,295	
Infrastructure	22,879,138	0.5%	22,759,138	0.0%	22,759,138	
Buildings and improvements	4,103,143	0.1%	4,099,731	0.1%	4,097,092	
Equipment	12,101,153	4.5%	11,584,981	6.9%	10,841,310	
Construction in progress	919,226	42.9%	643,392	20.5%	534,122	
Accumulated depreciation	<u>(28,531,073)</u>	16.2%	<u>(24,544,021)</u>	20.1%	<u>(20,427,999)</u>	
 Total Capital Assets (Net of Accum. Depreciation)	 <u>\$ 20,975,292</u>	 -12.7%	 <u>\$ 24,020,226</u>	 -12.0%	 <u>\$ 27,280,668</u>	

An easement purchased to facilitate the mandated monitoring of an off-site well increased land by \$26,700. A \$120,000 investment in fiber optic at the Hwy 59 landfill increased infrastructure by less than 1%. The purchase of a D8T dozer, a tarp machine, an engine rebuild, and a utility vehicle contributed to the increases in equipment. Continued work on the landfill gas collection system for cell 6, and the design and permitting for the valley fill in Merced and phase 2b in Los Banos accounted for the additional \$276,000 in construction in progress. Accumulated depreciation is 16% greater than the previous year.

Long-Term Debt

Long-term debt totaled \$22,469,945 at June 30, 2017. This is comprised of closure and post closure liability for both Billy Wright and Highway 59 totaling \$3,972,275; \$1,317,670 of net pension liability; and bonds payable totaling \$17,180,000.

	<u>June 30, 2016</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>June 30, 2017</u>	<u>Amounts Due Within One Year</u>	<u>L-T Debt</u>
Closure and Postclosure	\$ 3,539,532	\$ 432,743	\$ -	\$ 3,972,275	\$ -	\$ 3,972,275
Capital Leases	190,006	-	(133,381)	56,625	56,625	-
Net Pension Liability	1,783,719	-	(466,049)	1,317,670	-	1,317,670
2015 Refunding Bond	<u>20,475,000</u>	-	<u>(1,627,000)</u>	<u>18,848,000</u>	<u>1,668,000</u>	<u>17,180,000</u>
 Total Long-Term Debt	 <u>\$ 25,988,257</u>	 <u>\$ 432,743</u>	 <u>\$ (2,226,430)</u>	 <u>\$ 24,194,570</u>	 <u>\$ 1,724,625</u>	 <u>\$ 22,469,945</u>

Scheduled debt service payments for a capital lease and the advance refunding of the Solid Waste Revenue Bond totaled \$1,760,381. Per GASB 68 actuarial reports, net pension liability was reduced by \$466,049 in the current fiscal year. Also, an additional \$432,743 in closure and post closure liability was incurred.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Merced County economic indicators continue to remain positive and the cities and county continue to report increases in the volume of building permit applications. Its continued relationships with out-of-county customers have favorably impacted RWA's bottom line, allowing it to build its reserves to satisfy future equipment and expansion needs. A new peak of 381,387 landfilled tons were processed; nearly 63,000 more tons than the prior year record.

For its 2017/18 budget, projected revenues were based on 275,000 disposed tons. This conservative approach is based on the knowledge that more than a third of its total disposed tons are from out-of-county sources that could dissipate at any time. Only 250,000 tons originated from Merced County during the 2016/17 fiscal year. Operating expenses were budgeted only 3% more than authorized in 2016/17. 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, Chief Financial Officer, Merced County Association of Governments, 369 W. 18th Street, Merced, CA 95340, or by email at Nav.bagri@mcagov.org.

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BASIC FINANCIAL STATEMENTS

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 26,493,824
Accounts receivable, net of allowance for doubtful accounts of \$26,219	1,457,809
Due from other agencies	573,320
Prepays	108,980
Supplies inventory	<u>16,177</u>

Total current assets 28,650,110

Noncurrent assets:

Cash and investments - restricted 2,841,776

Capital assets:

Nondepreciable:

Land	1,772,410
Construction in progress	919,226

Depreciable assets:

Land improvements	7,731,295
Infrastructure	22,879,138
Buildings and improvements	4,103,143
Machinery and equipment	12,101,153
Less accumulated depreciation	<u>(28,531,073)</u>

Total capital assets, net 20,975,292

Total noncurrent assets 23,817,068

Total assets 52,467,178

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding of debt 1,775,314

Pension deferrals 104,645

Total deferred outflows of resources 1,879,959

Total assets and deferred outflows of resources \$ 54,347,137

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, 2017**

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 694,485
Interest payable	41,366
Bond payable	1,668,000
Unearned revenue	82,341
Capital lease obligations	<u>56,625</u>
Total current liabilities	<u>2,542,817</u>

Long-term liabilities:

Bond payable	17,180,000
Closure and postclosure care liability	3,972,275
Net pension liability	<u>1,317,670</u>
Total long-term liabilities	<u>22,469,945</u>

Total liabilities	<u>25,012,762</u>
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DEFERRED INFLOWS OF RESOURCES

Pension deferrals	<u>930,673</u>
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NET POSITION

Net investment in capital assets	3,845,981
Unrestricted	<u>24,557,721</u>

Total net position	<u>28,403,702</u>
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Total liabilities, deferred inflows of resources and net position	<u>\$ 54,347,137</u>
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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, 2017**

OPERATING REVENUES	
Charges for services	\$ 13,603,823
Other	<u>271,958</u>
Total operating revenues	<u>13,875,781</u>
OPERATING EXPENSES	
Special departmental	615,100
Professional services	3,950,590
Repairs and equipment maintenance	694,636
Rents and leases	10,702
General and administrative	396,167
Utilities	71,155
Closure and postclosure care costs	432,743
Amortization and depreciation	4,019,960
Bad debt expense	<u>8,214</u>
Total operating expenses	<u>10,199,267</u>
Operating income (loss)	<u>3,676,514</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	256,020
Interest expense	(724,630)
Gain (loss) on investments	(53,148)
Other revenues	<u>(19)</u>
Total nonoperating revenues (expenses)	<u>(521,777)</u>
Change in net position	3,154,737
Net position - beginning	<u>25,248,965</u>
Net position - ending	<u>\$ 28,403,702</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, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 13,486,777
Payments to suppliers	<u>(6,014,943)</u>
Net cash provided (used) by operating activities	<u>7,471,834</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other revenues	<u>(19)</u>
Net cash provided (used) by noncapital financing activities	<u>(19)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(1,627,000)
Acquisition of capital assets	(975,026)
Capital lease payments	(133,381)
Interest paid	<u>(550,680)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,286,087)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest and land rentals	256,020
Unrealized (Gain) loss on cash equivalents	<u>(53,148)</u>
Net cash provided (used) by investing activities	<u>202,872</u>
Net increase (decrease) in cash and cash equivalents	4,388,600
Cash and cash equivalents - beginning	<u>24,947,000</u>
Cash and cash equivalents - ending	<u>\$ 29,335,600</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents	\$ 26,493,824
Cash and investments - restricted	<u>2,841,776</u>
Total cash and cash equivalents	<u>\$ 29,335,600</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, 2017

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

Operating income (loss)	\$ 3,676,514
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	4,019,960
Bad debt expense	8,214
Closure and postclosure care costs	432,743
(Increase) decrease in:	
Accounts receivable	(376,749)
Inventories	3,036
Prepaid items	(22,285)
Deferred outflows of resources for pensions	51,714
Increase (decrease) in:	
Accounts payable and other liabilities	50,580
Unearned revenue	(12,255)
Increase in net pension liability	(466,049)
Deferred inflows of resources for pensions	<u>106,411</u>
Net cash provided (used) by operating activities	<u>\$ 7,471,834</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, 2017

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, 2017**

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, 2017**

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, 2017 consisted of the following:

	Carrying Amount
Cash and cash equivalents	\$ 3,502,057
County of Merced Treasurer's Investment Pool	4,796,405
Total cash and investments	\$ 8,298,459

Cash and investments as of June 30, 2017 were classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 23,652,045
Cash and investments - restricted	2,841,776
Total cash and investments	\$ 26,493,821

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017 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, 2017, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately 527 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 \$25,833,543 as of June 30, 2017.

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, 2017, 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>\$ 4,796,405</u>
Total			<u>100%</u>	<u>\$ 4,796,405</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017:

- Investment in County of Merced Treasurer's Investment Pool: valued at \$25,833,543, 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, 2017 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, 2017, capital assets consisted of the following:

	Balances June 30, 2016	Additions	Deletions	Balances June 30, 2017
Capital assets, not being depreciated:				
Land reserved for landfill	\$ 1,745,710	\$ 26,700	\$ -	\$ 1,772,410
Construction in progress	643,392	275,834	-	919,226
Total capital assets, not being depreciated	<u>2,389,102</u>	<u>302,534</u>	<u>-</u>	<u>2,691,636</u>
Capital assets, being depleted:				
Land improvements	<u>7,731,295</u>	-	-	<u>7,731,295</u>
Total capital assets, being depleted	<u>7,731,295</u>	-	-	<u>7,731,295</u>
Capital assets, being depreciated:				
Infrastructure	22,759,138	120,000	-	22,879,138
Buildings and improvements	4,099,731	3,412	-	4,103,143
Machinery and equipment	<u>11,584,981</u>	<u>552,736</u>	<u>(36,564)</u>	<u>12,101,153</u>
Total capital assets, being depreciated	<u>38,443,850</u>	<u>676,148</u>	<u>(36,564)</u>	<u>39,083,434</u>
Less accumulated depreciation	<u>(24,544,021)</u>	<u>(4,019,960)</u>	<u>32,908</u>	<u>(28,531,073)</u>
Total capital assets, being depreciated, net	<u>13,899,829</u>	<u>(3,343,812)</u>	<u>(3,656)</u>	<u>10,552,361</u>
Total capital assets	<u>\$ 24,020,226</u>	<u>\$ (3,041,278)</u>	<u>\$ (3,656)</u>	<u>\$ 20,975,292</u>

Depreciation expense for the year ended June 30, 2017 was \$4,019,960.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – LONG-TERM DEBT

The following is a schedule of long-term liabilities for the year ended June 30, 2017:

	June 30, 2016	Incurred or Issued	Satisfied or Matured	June 30, 2017	Amounts Due Within One Year
Capital Leases	\$ 190,006	\$ -	\$ (133,381)	\$ 56,625	\$ 56,625
2015 Refunding Bond	<u>20,475,000</u>	<u>-</u>	<u>(1,627,000)</u>	<u>18,848,000</u>	<u>1,668,000</u>
Total	<u>\$ 20,665,006</u>	<u>\$ -</u>	<u>\$ (1,760,381)</u>	<u>\$ 18,904,625</u>	<u>\$ 1,724,625</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, 2017:

Years Ending June 30,	Principal	Interest	Total
2018	\$ 1,668,000	\$ 503,242	\$ 2,171,242
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
Thereafter	<u>10,046,000</u>	<u>818,677</u>	<u>10,864,677</u>
Total	<u>\$ 18,848,000</u>	<u>\$ 2,877,275</u>	<u>\$ 21,725,275</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, the Authority included the following amounts that have been capitalized under lease purchase agreements:

Machinery and equipment	\$ 7,383,008
Less accumulated depreciation	<u>(6,624,135)</u>
Total	<u>\$ 758,873</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, are as follows:

<u>Year Ending June 30,</u>	
2018	<u>\$ 57,002</u>
Total future minimum lease payments	57,002
Less amount representing interest	<u>(377)</u>
Present value of minimum lease payments	<u>\$ 56,625</u>

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 \$3,972,275 reported as landfill closure and postclosure care liability, at June 30, 2017, represents the cumulative amount reported to date based on the landfill capacity used to date, calculated at 28% and 8% for Highway 59 and Billy Wright Landfills, respectively, at June 30, 2017. The Authority will recognize the remaining estimated cost of closure and postclosure care of \$23,683,684 as the remaining estimated capacity is filled over the estimated 37-57 years remaining at June 30, 2017. This amount is based on current estimates of remaining closure and postclosure care costs at June 30, 2017. 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.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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.

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

A. General Information about the 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. Plan members are classified as either Safety or General members with different levels of benefits as a result of that classification. 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.

Benefits Provided – The Plan provides retirement and disability benefits, annual cost-of-living adjustments (as applicable), post-retirement health and dental care benefits, and death benefits to plan members and beneficiaries. Benefits are established in accordance with the 1937 Act while the authority to make changes rests with MCERA and the Board of Supervisors in accordance with the 1937 Act, as amended. Pursuant to the 1937 Act, the Retirement Board makes an annual determination of MCERA’s ability to provide financial assistance to defray the costs of retiree health care. Historically, MCERA has provided some measure of financial support toward such costs; however, the level of such support has varied. Retirees have no vested right to receive such financial support and the availability of such support is not guaranteed. MCERA reserves the right to alter the level of financial support, to alter the method by which it provides such support, or to terminate such support, as permitted by law. As of July 1, 2011 the Plan was closed to new entrants.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	General			
	Tier I	Tier II	Tier III	Tier IV
Hire date	Prior to June 13, 1994	Between June 14, 1994 and September 30, 2012	Between October 1, 2012 and December 31, 2012	After January 1, 2013
Benefit formula	3% at 60	3% at 60	2.43% @ 65	2% at 62
Benefit vesting schedule	10 years service	10 years service	10 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50 - 60	50 - 60	50 - 65	52 - 67
Monthly benefits, as a % of eligible compensation	1.00% to 1.50%	1.00% to 1.50%	0.71% to 1.46%	1.0% - 2.5%
Required employee contribution rates	Employee Contribution Rates Vary By Member Group and Tier ⁽¹⁾			
Required employer contribution rates	50.13%	47.37%	44.56%	47.20%

⁽¹⁾ Employee contributions are defined in the 1937 Act. Employer contributions are actuarially determined to provide the defined benefit after subtracting employee contributions and are appropriated on an annual basis. Member contribution rates are based on a formula reflecting the age at entry into the system. The basic rates are such as to provide an average annuity that is equal to a fractional part of the highest year(s) salary, based on membership and tier. For members integrated with Social Security, the above contributions are reduced by 1/3 of that portion of such contribution payable with respect to the first \$350 of monthly salary. Member contributions are refundable upon termination from the system.

Contributions – Section 20814c of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by MCERA. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were \$149,037.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the Authority reported net pension liability for its proportionate share of the net position liability of the Plan as \$1,317,670.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	General
Proportion - June 30, 2015	0.3845%
Proportion - June 30, 2016	0.2628%
Change - Increase (Decrease)	-0.1217%

For the year ended June 30, 2016, the Authority recognized pension income of \$315,246. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	(27,085)
Change in employer's proportion		(902,314)
Differences between the employer's contributions and the employer's proportionate share of contributions	186	(1,274)
Net differences between projected and actual earnings on plan investments	104,459	-
Total	\$ 104,645	\$ (930,673)

The Authority did not make any contributions to the Plan during the year ended June 30, 2017 and, accordingly, did not have any deferred outflows of resources related to contributions subsequent to the measurement date. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2016	\$	(439,290)
2017		(308,896)
2018		(105,396)
2019		27,554
2020		-
Thereafter		-

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – PENSION PLANS (Continued)

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	General
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Discount Rate	7.75%
Inflation	3.00%
Projected Salary Increase	3.00% plus service-based rates
Investment Rate of Return	7.75% (1)
Mortality	Sex distinct RP-2000 Combined Healthy Tables, set forward three years for males and females.

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of January 2014 actuarial experience study for the period of July 1, 2010 through June 30, 2013. Further details of the Experiences Study can be found on the MCERA website.

D. Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The stress test results are presented in a detailed report that can be obtained from the MCERA website.

The long-term defined benefit pension plan return expectations were determined using a building-block approach. An inflation forecast is the baseline and various real return premiums (e.g. bonds, equities, etc.) are added to create nominal return expectations for each asset class. These expectations are combined to produce the long-term expected rate of return by weighting the expected nominal rates of return by the target asset allocation percentages and including an expected return from rebalancing uncorrelated asset classes.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – PENSION PLANS (Continued)

D. Discount Rate (Continued)

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2016 and June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation		Long Term Expected Real Rate of Return	
	FYE June 30, 2016	FYE June 30, 2015	FYE June 30, 2016	FYE June 30, 2015
US Equity	28.4%	28.4%		
US Large Cap			5.10%	5.10%
US Small Cap			5.60%	5.50%
International Equity	17.5%	17.5%	5.80%	5.70%
Emerging Markets Equity	6.1%	6.1%	6.80%	6.50%
Private Equity	7.0%	7.0%	7.50%	7.50%
Real Estate	8.0%	8.0%	3.70%	3.70%
Domestic Fixed Income	14.5%	14.5%	0.80%	0.50%
High Yield Fixed Income	5.0%	5.0%	3.60%	3.00%
Hedge Funds	4.5%	4.5%	2.80%	2.80%
Infrastructure	3.0%	3.0%	3.50%	3.50%
Natural Resources	3.0%	3.0%	5.60%	5.30%
Bank Loans	3.0%	3.0%	2.50%	2.40%
Cash	0.0%	0.0%	0.40%	-0.50%
Total	100%	100%		

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	General
1% Decrease	6.75%
Net Pension Liability	\$1,685,071
Current Discount Rate	7.75%
Net Pension Liability	\$1,317,670
1% Increase	8.75%
Net Pension Liability	\$1,010,904

E. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued MCERA financial reports.

F. Payable to the Pension Plan

At June 30, 2017, the Authority did not report a payable for the outstanding amount of contributions to the pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
 PROPORTIONATE SHARE OF NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2017
 LAST 10 YEARS***

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the net pension liability	0.5202%	0.3845%	0.2628%
Proportionate share of the net pension liability	\$ 2,343,012	\$ 1,783,719	\$ 1,317,670
Covered payroll	\$ 527,862	\$ 429,981	\$ 314,331
Proportionate share of the net pension liability as percentage of covered payroll	443.87%	414.84%	420.02%
Plan fiduciary net position as a percentage of the total pension liability	52.85%	59.20%	57.20%

Notes to Schedule:

Changes in Benefit Terms - None

Changes in Assumptions - None

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017
LAST 10 YEARS***

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially required contribution (actuarially determined)	\$ 249,151	\$ 197,750	\$ 149,307
Contributions in relation to the actuarially determined contributions	<u>249,151</u>	<u>197,750</u>	<u>149,307</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 527,862	\$ 429,981	\$ 314,331
Contributions as a percentage of covered payroll	47.20%	45.99%	47.50%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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OTHER AUDITOR'S REPORT

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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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 14, 2017.

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
December 14, 2017

FINDINGS AND QUESTIONED COSTS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 not 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, 2017**

FINANCIAL STATEMENT FINDINGS

None reported.