

**MERCED COUNTY REGIONAL WASTE
MANAGEMENT AUTHORITY**

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

**FOR THE YEAR ENDED
JUNE 30, 2015**

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
JUNE 30, 2015

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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, 2015, 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 opinions 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.

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, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 16 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, 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 7, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015. This is to be read in conjunction with the Independent Auditor's Report and the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded liabilities at the close of the 2014/15 fiscal year by \$23,858,929. Of this amount, \$16,698,890 (unrestricted net assets) may be used to meet ongoing obligations to creditors. \$7,160,039 was invested in capital assets, net of related debt.
- The Authority's net position decreased by \$1,858,724 during the fiscal year ended June 30, 2015. This change can largely be attributed to depreciation expense exceeding capital outlays during the fiscal year.
- With the implementation of GASB 68, a prior year net pension liability adjustment of \$3,133,712 ensued. Although \$800,000 of the net pension liability was reduced during the year, this minimized the progress reflected on the financials of the agency's \$3.5 million dollars in debt service payments for capital leases and bonds.

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 positions*. Over time, increases or decreases in net assets 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 Authority net assets* presents information showing how net assets changed during the last fiscal year. All changes in net assets 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 17-31 of this report.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 fund 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 \$23.9 million, \$1.9 million less than the prior year. Although the FY 13/14 experienced a small gain over FY 12/13, the current year's decrease is due not only to 27% more in depreciation of capital assets over FY 13/14, but also to the \$1.8 million in cash reserves brought to the table for the advance refunding of the 2007 Solid Waste Revenue bonds. The advance refunding resulted in a deferred outflow – loss on refunding of \$2.1 million. Per GASB 68, the Authority also applied current year pension plan contributions of \$190,000 against deferred outflows.

MCRWMA NET POSITION

	2015	\$	%	2014	\$	%	2013
Current and other assets	\$23,929,539	-\$595,814	-2.4%	\$24,525,353	\$2,585,093	11.8%	\$21,940,260
Capital assets	27,280,668	-3,738,022	-12.1%	31,018,690	-4,587,670	-12.9%	35,606,360
Total assets	<u>51,210,207</u>	<u>-4,333,836</u>	-7.8%	<u>55,544,043</u>	<u>-2,002,577</u>	-3.5%	<u>57,546,620</u>
Total deferred outflows of resources	<u>2,320,345</u>						
Current liabilities:	2,863,396	30,899	1.1%	2,832,497	-878,572	-23.7%	3,711,069
Long-term liabilities	26,197,905	-795,988	-2.9%	26,993,893	-1,230,416	-4.4%	28,224,309
Total liabilities	<u>29,061,301</u>	<u>-765,089</u>	-2.6%	<u>29,826,390</u>	<u>-2,108,988</u>	-6.6%	<u>31,935,378</u>
Total deferred inflows of resources	<u>610,322</u>						
Net Position							
Invested in capital assets, net	7,160,039	361,196	5.3%	6,798,843	-2,955,010	-30.3%	9,753,853
Restricted	0	-10,950,671	-100.0%	10,950,671	423,607	4.0%	10,527,064
Unrestricted	16,698,890	8,730,751	109.6%	7,968,139	2,637,815	49.5%	5,330,324
Total net position	<u>\$ 23,858,929</u>	<u>\$ (1,858,724)</u>	-7.2%	<u>\$ 25,717,653</u>	<u>\$ 106,412</u>	0.4%	<u>\$ 25,611,241</u>

The implementation of GASB 68 required employers to recognize their share of net pension liability. For the first time, the Authority recognized an additional \$2.3 million in long term liabilities for its share of the unfunded pension liability. Although scheduled debt service effectively reduced the Authority's liabilities, the need to recognize net pension liability minimized the decrease in overall liabilities by a mere 2.6%, 4% less over the prior two fiscal years.

Investments in capital assets (land, structures, improvements, equipment, and construction in progress) make up 30% 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, 2015**

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 11% of the Authority's net position. Closure funds of \$2,701,271 are netted against a closure/post closure liability of \$3,189,887, necessitating that the \$488,616 negative difference be absorbed by unrestricted assets. The remaining unrestricted net assets (\$16,698,890) 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 invested in capital assets and unrestricted net assets.

Service charges, or landfill tipping fee revenue, increased by 10.7% over the prior year. The 61% decrease in other operating revenues is a reflection of the loss of the short-term soil sale contract during FY 13/14. The Authority was granted an additional \$34,000 in other revenue for oil recycling programs and tire amnesty and clean up over the prior year.

The Authority decreased its overall operating costs by a modest 6.3%. The retirement or transitioning of Authority employees resulted in the largest cost reduction of \$470,000. Efficiencies in landfill operations reduced equipment and maintenance costs by almost 12%. The Authority no longer leases office space, causing the 47% reduction in rents and leases expense. The purchase of an environmental liability insurance policy is largely responsible for the \$60,000 increase in general and administrative expense. The use of tarps, alternative daily cover, and landfill best practices are responsible for the 14% decrease in closure and post closure expense, even though landfilled tons were higher than the prior fiscal year. Closure and post closure expense was recorded per GASB 18; however, a pledge of revenue agreement with CalRecycle allowed the minimum deposit of \$34,428 into the appropriate closure funds. The Authority is currently working to solve ground water contamination and landfill gas migration issues at the Highway 59 landfill as proposed by the engineer; it is expected that the implementation and any additional expenses will occur in the 15/16 fiscal year.

The advance refunding of the 2007 Solid Waste Revenue Bonds contributed to the considerable decrease of 32% in interest expense. Debt issuance costs of \$270,000 for the refunding were also fully expensed in the current year. Unlike the prior year, the Authority did not sell any of its heavy equipment resulting in \$660,000 less of a gain on investments.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Activities: The following table summarizes the comparative changes in net position for the Authority's activities for the fiscal years ended June 30, 2015, 2014, and 2013.

<u>CHANGES IN NET POSITION</u>							
	<u>2015</u>	\$	%	<u>2014</u>	\$	%	<u>2013</u>
OPERATING REVENUES							
Charges for services	11,369,386	1,095,591	10.7%	10,273,795	1,206,675	13.3%	9,067,120
Other operating revenues	198,825	(315,094)	-61.3%	513,919	25,831	5.3%	488,088
Total operating revenues	11,568,211	780,497	7.2%	10,787,714	1,232,506	12.9%	9,555,208
OPERATING EXPENSES							
Personnel services	669,876	(472,233)	-41.3%	1,142,109	(176,066)	-13.4%	1,318,175
Special departmental	511,520	34,786	7.3%	476,734	(23,420)	-4.7%	500,154
Professional services	2,599,473	(33,182)	-1.3%	2,632,655	(434,711)	-14.2%	3,067,366
Repairs and equipment maintenance	703,773	(92,169)	-11.6%	795,942	(261,904)	-24.8%	1,057,846
Rents and leases	7,605	(6,626)	-46.6%	14,231	(23,650)	-62.4%	37,881
General and administrative	346,683	60,829	21.3%	285,854	38,633	15.6%	247,221
Utilities	56,169	5,290	10.4%	50,879	4,197	9.0%	46,682
Closure and postclosure expense	415,841	(70,008)	-14.4%	485,849	1,513,110	-147.3%	(1,027,261)
Corrective action expense							455,000
Amortization and depreciation	4,385,073	(77,787)	-1.7%	4,462,860	2,593,145	138.7%	1,869,715
Total operating expense	9,696,013	(651,100)	-6.3%	10,347,113	2,774,334	36.6%	7,572,779
Operating income (loss)	1,872,198	1,431,597	324.9%	440,601	(1,541,828)	-77.8%	1,982,429
NONOPERATING REVENUES (EXPENSES)							
Interest income	101,631	2,418	2.4%	99,213	(45,472)	-31.4%	144,685
Interest expense	(809,302)	381,095	-32.0%	(1,190,397)	88,269	-6.9%	(1,278,666)
Gain (loss) on investments	35,428	(657,934)	-94.9%	693,362	847,841	-548.8%	(154,479)
Debt Issuance Costs	(272,150)	(272,150)			-		
Other revenues	98,032	34,399	54.1%	63,633	63,574	107752.5%	59
Total nonoperating revenues (expenses)	(846,361)	(512,172)	153.3%	(334,189)	954,212	-74.1%	(1,288,401)
Change in net position	1,025,837	919,425	864.0%	106,412	(587,616)	-84.7%	694,028
Net position - beginning	25,717,653	106,412	0.4%	25,611,241	397,910	1.6%	25,213,331
Prior Period adjustments	(2,884,561)	(2,884,561)			251,336		(251,336)
Net position - ending	23,858,929	(1,858,724)	-7.2%	25,717,653	61,630	0.2%	25,656,023

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets

As of June 30, 2015, the Authority's capital assets (net of accumulated depreciation) totaled \$27,280,668, 12% less than the \$31,018,690 at June 30, 2014.

The following table summarizes the changes in capital assets between June 30, 2015, 2014, and 2013:

CHANGES IN CAPITAL ASSETS						
	<u>2015</u>	%		<u>2014</u>	%	<u>2013</u>
Land	1,745,710	0.0%		1,745,710	0.0%	1,745,710
Land improvements	7,731,295	0.0%		7,731,295	2.0%	7,579,446
Infrastructure	22,759,138	0.0%		22,759,138	0.0%	22,759,138
Buildings and improvements	4,097,092	0.2%		4,088,532	1.8%	4,017,450
Equipment	10,841,310	1.7%		10,656,304	-26.5%	14,497,838
Construction in progress	534,122	541.8%		83,217	-81.7%	454,499
Accumulated depreciation	(20,427,999)	27.3%		-16,045,506	3.9%	-15,447,722
Total Capital Assets (Net of Accum. Depreciation)	<u>27,280,668</u>	-12.1%		<u>31,018,690</u>	-12.9%	<u>35,606,360</u>

The landfill gas collection system for cell 6, and work on the environmental impact report for the valley fill accounted for the \$451,000 increase in construction in progress. Accumulated depreciation is 27% higher over the previous year; however, actual accumulated depreciation expense for 2015 is 2% lower than FY 2013/14. As previously stated, no heavy equipment was disposed of in the current fiscal year, unlike the significant reduction in equipment between the 12/13 and 13/14 fiscal years.

Long-term debt

Long term debt totaled \$26,197,905 at June 30, 2015. This amount is comprised of an equipment lease with Kansas State Bank of \$190,006; closure and post closure liability for both Billy Wright and Highway 59 totaling \$3,189,887; \$2,343,012 of net pension liability; and bonds payable totaling \$20,475,000.

	30-Jun-14	Incurred or Issued	Satisfied or Matured	30-Jun-15	Amounts Due Within 1 Year	L-T Debt
Closure and Postclosure	2,774,046	415,841		3,189,887		3,189,887
Capital Leases	446,414	-	(126,509)	319,905	129,899	190,006
Solid Waste Revenue Bond	25,460,000		(25,460,000)	-	-	-
Less: Bond Discount	(50,058)		50,058	-		-
2015 Bond Refinance		23,572,000	(1,511,000)	22,061,000	1,586,000	20,475,000
Net Pension Liability*	-	3,133,712	(790,700)	2,343,012		2,343,012
	<u>28,630,402</u>	<u>27,121,553</u>	<u>(27,838,151)</u>	<u>27,913,804</u>	<u>1,715,899</u>	<u>26,197,905</u>

*Prior year adjustment necessary to implement GASB 68.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Scheduled debt service payments for a capital lease and the advance refunding of the Solid Waste Revenue Bond totaled \$3,475,451. GASB 68 implementation required a prior year balance adjustment of \$3,133,712, and \$790,700 was satisfied per actuarial reports in the current fiscal year. Also, an additional \$415,841 in closure and post closure liability was incurred. As long as it is economically feasible, the Authority intends to avoid future, new capital leases and the need for bonds for future expansion. It has adopted a pay-as-you-go culture and has made progress in setting up and funding yearly a heavy equipment fleet reserve, as well as maximizing its use of its modest capital projects fund by aggressively seeking the permitting of the valley fill project as an expansion alternative to excavating its next planned cell 6b at Highway 59.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Merced County economic indicators show the area is making small, progressive steps away from the 2008 recession. The cities and county continue to report increases in the volume of building permit applications. During the 2014/15 fiscal year, the Authority disposed approximately 305,000 tons of garbage, 6% more than the prior year, and just shy of the 306,500 peak during the 2006 housing boom. The increase was a pleasant, unexpected surprise as the Authority expected that disposed tons would dwindle because of the loss of temporary, but significant contracts.

The expected loss of such contracts resulted in a conservative budget approach for the 2015/16 fiscal year. Projected revenue assumed disposed tons of only 260,000 at various rates and budgeted operating expenses are within 1% of the original 2013/14 budget. The Authority also budgeted for reserve fund transfers into fleet replacement and capital projects of approximately \$1.5 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 Christina Smith, Chief Financial Officer, Merced County Association of Governments, 369 W. 18th Street, Merced, CA 95340, or at Christina.smith@mcagov.org.

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BASIC FINANCIAL STATEMENTS

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current assets:	
Cash and cash equivalents	\$ 19,538,525
Accounts receivable, net of allowance for doubtful accounts of \$24,990	1,226,856
Due from other agencies	329,684
Prepays	115,620
Supplies inventory	<u>17,583</u>
Total current assets	<u>21,228,268</u>
Noncurrent assets:	
Cash and investments - restricted	2,701,271
Capital assets:	
Nondepreciable:	
Land	1,745,710
Construction in progress	534,122
Depreciable assets:	
Land improvements	7,731,295
Infrastructure	22,759,138
Buildings and improvements	4,097,092
Machinery and equipment	10,841,310
Less accumulated depreciation	<u>(20,427,999)</u>
Total capital assets, net	<u>27,280,668</u>
Total noncurrent assets	<u>29,981,939</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on refunding of debt	2,130,377
Pension deferrals	<u>189,968</u>
Total deferred outflows of resources	<u>2,320,345</u>
Total assets	<u><u>\$ 53,530,552</u></u>

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, 2015**

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 393,186
Interest payable	48,437
Due to other agencies	478,109
Bond payable	1,586,000
Unearned revenue	77,259
Capital lease obligations	129,899
Corrective action liability	<u>150,506</u>

Total current liabilities 2,863,396

Long-term liabilities:

Bond payable	20,475,000
Capital lease obligations	190,006
Closure and postclosure care liability	3,189,887
Net pension liability	<u>2,343,012</u>

Total long-term liabilities 26,197,905

Total liabilities 29,061,301

DEFERRED INFLOWS OF RESOURCES

Pension deferrals	<u>610,322</u>
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NET POSITION

Net investment in capital assets	7,160,039
Unrestricted	<u>16,698,890</u>

Total net position 23,858,929

Total liabilities and net position \$ 53,530,552

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 FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES	
Charges for services	\$ 11,369,386
Other	<u>198,825</u>
Total operating revenues	<u>11,568,211</u>
OPERATING EXPENSES	
Personnel services	669,876
Special departmental	515,849
Professional services	2,599,473
Repairs and equipment maintenance	703,773
Rents and leases	7,605
General and administrative	336,895
Utilities	56,169
Closure and postclosure care costs	415,841
Amortization and depreciation	4,385,073
Bad debt	<u>5,459</u>
Total operating expenses	<u>9,696,013</u>
Operating income (loss)	<u>1,872,198</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	101,631
Bond issuance costs	(272,150)
Interest expense	(809,302)
Gain (loss) on investments	35,428
Other revenues	<u>98,032</u>
Total nonoperating revenues (expenses)	<u>(846,361)</u>
Change in net position	1,025,837
Net position - beginning	25,717,653
Change in application of accounting principles	<u>2,884,561</u>
Net position - ending	<u>\$ 23,858,929</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, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 11,353,818
Payments to suppliers	(4,220,212)
Payments to or on behalf of employees for services	<u>(722,298)</u>
Net cash provided (used) by operating activities	<u>6,411,308</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants received	<u>98,032</u>
Net cash provided (used) by noncapital financing activities	<u>98,032</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of long-term debt	21,441,623
Bond issuance costs	(272,150)
Principal payments on long-term debt	(26,971,000)
Acquisition of capital assets	(647,051)
Capital lease payments	(126,510)
Interest paid	<u>(852,534)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,427,622)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest and land rentals	<u>101,631</u>
Net cash provided (used) by investing activities	<u>101,631</u>
Net increase (decrease) in cash and cash equivalents	(816,651)
Cash and cash equivalents - beginning	<u>23,056,447</u>
Cash and cash equivalents - ending	<u><u>\$ 22,239,796</u></u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents	\$ 19,538,525
Cash and investments - restricted	<u>2,701,271</u>
Total cash and cash equivalents	<u><u>\$ 22,239,796</u></u>

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

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

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

Operating income (loss)	\$ 1,872,198
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	4,385,073
Pension expense	(404,003)
Bad debt expense	5,459
Closure and postclosure care costs	415,841
(Increase) decrease in:	
Accounts receivable	(162,175)
Inventories	(153)
Prepaid items	(47,254)
Deferred outflows of resources for pensions	(189,968)
Increase (decrease) in:	
Accounts payable and other liabilities	46,959
Unearned revenue	(52,218)
Increase in net pension liability	(68,773)
Deferred inflows of resources for pensions	<u>610,322</u>
Net cash provided (used) by operating activities	<u>\$ 6,411,308</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, 2015

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 Fund 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 Fund 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 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.

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, 2015**

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. The Authority recorded a total of \$24,990 of allowance for doubtful accounts during the fiscal year ended June 30, 2015.

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. The Authority's current accounts payable and accrued expenses balance of \$393,186 as of June 30, 2015, 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 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, 2015

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.

D. Pronouncements

1. New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement were implemented for the Authority’s fiscal year ending June 30, 2015. The impact of this statement resulted in the recognition of a net pension liability of \$2,343,012, deferred outflows from pensions of \$189,968, deferred inflows from pensions of \$610,332, an adjustment to for change in application of accounting principles of \$2,884,561, and a pension expense of \$68,773 for the year ended June 30, 2015.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Pronouncements (Continued)

1. New Accounting Pronouncements Adopted (Continued)

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2015. As of July 1, 2014, the Authority adopted this standard, which did not have an impact on its financial statements.

Governmental Accounting Standards Board Statement No. 71

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this statement were implemented for the Authority's fiscal year ending June 30, 2015. The impact of this statement resulted in the recording of deferred outflows (pension contributions) of \$189,968 as of June 30, 2015.

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements for this provision are effective for the Authority's fiscal year ending June 30, 2015. As of July 1, 2014, the Authority adopted this standard, which did not have a significant impact on its financial statements.

2. New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accessing accountability. This statement results from comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Pronouncements (Continued)

New Accounting Pronouncements Not Yet Adopted (Continued)

Governmental Accounting Standards Board Statement No. 74

On June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018.

Governmental Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2019.

Governmental Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements for this statement are effective for the Authority's fiscal year ending June 30, 2017.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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 fund's deposits will not be returned to it. Cash balances held in financial banking institutions exceeded FDIC insurance amounts as of June 30, 2015 by \$3,181,735. 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, 2015 consisted of the following:

	Carrying Amount
Cash and cash equivalents	\$ 3,434,135
County of Merced Treasurer's Investment Pool	15,989,838
Local Agency Investment Fund	2,813,638
Cash with Fiscal Agent	2,185
Total cash and investments	\$ 22,239,796

Cash and investments as of June 30, 2015 were classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 19,538,525
Cash and investments - restricted	2,701,271
Total cash and investments	\$ 22,239,796

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, 2015 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, 2015, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately 552 days.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash in County Treasury (Continued)

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 \$15,989,838 as of June 30, 2015.

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. The County is restricted by *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 securities and foreign investments.

Investments in investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form. Investments in investment pools and other pooled investments are excluded from the concentration of credit risk disclosure under GASB Statement No. 40.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer until the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rate. As of year-end, the weighted average maturity of the investments contained in the County Treasury Investment Pool was approximately 20 months.

Custodial 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 credit risk disclosures for the Cash in the County Treasury. Copies of the County's financial statements may be obtained from their website www.co.merced.ca.us or by writing to the Merced County Auditor-Controller, 2222 M Street, Merced, California 95340.

Local Agency Investment Fund

The City participates in an external investment pool, as defined by the Government Accounting Standards Board (GASB) Statement No. 31, by way of its funds on deposit in the Local Agency Investment Fund (LAIF) managed by the State of California Treasurer and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the Authority's shares in the LAIF that may be withdrawn is determined on an amortized costs basis, which may be different from the fair value of the Authority's position in the pool. The Authority's portion of the June 30, 2015 balance was \$2,813,638. A breakdown of the investments included in the balance is not available at the balance sheet date.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2015, 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	85%	\$ 15,989,838
Local Agency Investment Fund	AAA	AAA	15%	2,813,638
Total			<u>100%</u>	<u>\$ 18,803,476</u>

NOTE 3 – CAPITAL ASSETS

At June 30, 2015, capital assets consisted of the following:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:					
Land reserved for landfill	\$ 1,745,710	\$ -	\$ -	\$ -	\$ 1,745,710
Construction in progress	83,217	450,905	-	-	534,122
Total capital assets, not being depreciated	<u>1,828,927</u>	<u>450,905</u>	<u>-</u>	<u>-</u>	<u>2,279,832</u>
Capital assets, being depleted:					
Land improvements	7,731,295	-	-	-	7,731,295
Total capital assets, being depleted	<u>7,731,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,731,295</u>
Capital assets, being depreciated:					
Infrastructure	22,759,138	-	-	-	22,759,138
Buildings and improvements	4,088,532	8,560	-	-	4,097,092
Machinery and equipment	10,656,304	187,586	(2,580)	-	10,841,310
Total capital assets, being depreciated	<u>37,503,974</u>	<u>196,146</u>	<u>(2,580)</u>	<u>-</u>	<u>37,697,540</u>
Less accumulated depreciation	<u>(16,045,506)</u>	<u>(4,385,073)</u>	<u>2,580</u>	<u>-</u>	<u>(20,427,999)</u>
Total capital assets, being depreciated, net	<u>21,458,468</u>	<u>(4,188,927)</u>	<u>-</u>	<u>-</u>	<u>17,269,541</u>
Total capital assets	<u>\$ 31,018,690</u>	<u>\$ (3,738,022)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,280,668</u>

Depreciation expense for the year ended June 30, 2015 was \$4,385,073.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM DEBT

The following is a schedule of long-term liabilities for the year ended June 30, 2015:

	June 30, 2014	Incurred or Issued	Satisfied or Matured	June 30, 2015	Amounts Due Within One Year
Closure and Postclosure	\$ 2,774,046	\$ 415,841	\$ -	\$ 3,189,887	\$ -
Capital Leases	446,415	-	(126,510)	319,905	129,899
Net Pension Liability	-	3,133,712	(790,700)	2,343,012	-
Solid Waste Revenue Bond	25,460,000	-	(25,460,000)	-	-
Less: Unamortized Discount	(50,059)	-	50,059	-	-
2015 Refunding Bond	-	23,572,000	(1,511,000)	22,061,000	1,586,000
Total	<u>\$ 28,630,402</u>	<u>\$ 27,121,553</u>	<u>\$ (27,838,151)</u>	<u>\$ 27,913,804</u>	<u>\$ 1,715,899</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 amount of \$3,189,887 reported as landfill closure and postclosure care liability, at June 30, 2015, represents the cumulative amount reported to date based on the landfill capacity used to date, calculated at 26% and 5% for Highway 59 and Billy Wright Landfills, respectively, at June 30, 2015. The Authority will recognize the remaining estimated cost of closure and postclosure care of \$23,753,093 as the remaining estimated capacity is filled over the estimated 39-59 years remaining at June 30, 2015. This amount is based on current estimates of remaining closure and postclosure care costs at June 30, 2015. 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.

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. 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. 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.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – LONG-TERM DEBT (Continued)

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 rates range from 4.00% to 4.625%. 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, 2015:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,586,000	\$ 589,029	\$ 2,175,029
2017	1,627,000	546,683	2,173,683
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-Thereafter	<u>13,705,000</u>	<u>1,502,331</u>	<u>15,207,331</u>
Total	<u>\$ 22,061,000</u>	<u>\$ 4,012,987</u>	<u>\$ 26,073,987</u>

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, 2015, the Authority included the following amounts that have been capitalized under lease purchase agreements:

Machinery and equipment	\$ 7,383,008
Less accumulated depreciation	<u>(5,877,798)</u>
Total	<u>\$ 1,505,210</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are as follows:

<u>Years Ending June 30,</u>	
2016	\$ 136,801
2017-2018	<u>193,801</u>
Total future minimum lease payments	330,603
Less amount representing interest	<u>(10,697)</u>
Present value of minimum lease payments	<u>\$ 319,905</u>

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 or omissions, injuries to employees; and natural disaster. The Authority provides coverage for these losses through commercial insurance policies.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 – 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 7 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – 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 MCERA 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, 2015**

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

The Plans' provisions and benefits in effect at June 30, 2015 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	55 - 60	55-67	52 - 67
Monthly benefits, as a % of eligible compensation	1.00% to 1.50%	1.25% to 1.50%	0.90% 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	47.20%	45.00%	42.16%	41.92%

⁽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, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	General
Contributions - employer	\$ 249,151

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

As of June 30, 2015, the Authority reported net pension liability for its proportionate share of the net position liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
General	\$ 2,343,012
Total Net Pension Liability	\$ 2,343,012

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 – 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, 2014, 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, 2013, rolled forward to June 30, 2014, 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, 2013 and 2014 was as follows:

	General
Proportion - June 30, 2013	4.58%
Proportion - June 30, 2014	4.50%
Change - Increase (Decrease)	(0.08%)

For the year ended June 30, 2015, the Authority recognized pension expense of \$68,773. At June 30, 2015, 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	\$ 189,968	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(391,182)
Net differences between projected and actual earnings on plan investments		(219,141)
Total	\$ 189,968	\$ (610,323)

\$189,968 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2016	\$	(185,179)
2017		(185,179)
2018		(185,179)
2019		(54,786)
2020		-
Thereafter		-

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 – PENSION PLANS (Continued)

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>General</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Discount Rate	7.75%
Inflation	3.00%
Projected Salary Increase	3.00% plus merit component based on years of service
Investment Rate of Return	7.75% (2)
Mortality	Sex distinct RP-2000 Combined Mortality setback two years for males.

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 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, 2015**

NOTE 7 – 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, 2014 and June 30, 2013 are summarized in the following table:

Asset Class	Target Allocation		Long Term Expected Real Rate of Return	
	FYE June 30, 2014	FYE June 30, 2013	FYE June 30, 2014	FYE June 30, 2013
US Equity	28.4%	29.0%		
US Large Cap			5.30%	5.30%
US Small Cap			5.60%	5.60%
International Equity	17.5%	24.0%	5.60%	5.60%
Emerging Markets Equity	6.1%	0.0%	6.40%	6.10%
Private Equity	7.0%	5.0%	7.70%	7.80%
Real Estate	8.0%	8.0%	0.70%	0.00%
Domestic Fixed Income	14.5%	34.0%	3.90%	3.80%
High Yield Fixed Income	5.0%	0.0%	2.60%	2.10%
Hedge Funds	4.5%	0.0%	2.10%	1.70%
Infrastructure	3.0%	0.0%	2.80%	3.10%
Natural Resources	3.0%	0.0%	3.70%	4.10%
Bank Loans	3.0%	0.0%	5.00%	4.90%
Cash	0.0%	0.0%	1.50%	1.50%
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:

	<u>General</u>
1% Decrease	6.75%
Net Pension Liability	\$3,050,804
Current Discount Rate	7.75%
Net Pension Liability	\$2,343,012
1% Increase	8.75%
Net Pension Liability	\$1,753,659

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, 2015, the Authority did not report a payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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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, 2015, 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 7, 2015.

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.

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 7, 2015

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) 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, 2015**

FINANCIAL STATEMENT FINDINGS

None reported.