

**MERCED COUNTY REGIONAL WASTE
MANAGEMENT AUTHORITY**

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
JUNE 30, 2016

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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, 2016, 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.

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, 2016, 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 32, and the Schedule of Contributions on page 33 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 1, 2016, 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 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, 2016. 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 2015/16 fiscal year by \$25,248,965--\$1.4 million more than the prior year. Of this amount, \$19,940,900 (unrestricted net position) may be used to meet ongoing obligations to creditors. Net investment in capital assets totaled \$5,305,065.
- The Authority's net position increased by almost \$1.4 million during the fiscal year ended June 30, 2016. Operating revenues exceeded budgeted expenses by nearly \$1.9 million.
- Debt service payments for capital leases, bonds and pension liability reduced long term debt by \$2.3 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 17-30 of this report.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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 \$25.2 million. The 11.6% increase in current assets is attributed to a growth in pooled cash and investments of \$2.6 million over the prior fiscal year. Depreciation expense of \$4.1 million exceeded net fixed asset additions of \$856,000, resulting in a net decrease of \$3.2 million.

	MCRWMA NET POSITION						
	<u>2016</u>	\$	%	<u>2015</u>	\$	%	<u>2014</u>
Current and other assets	\$ 26,715,502	\$ 2,785,963	11.6%	\$ 23,929,539	\$ (595,814)	-2.4%	\$ 24,525,353
Capital assets	<u>24,020,226</u>	<u>(3,260,442)</u>	-12.0%	<u>27,280,668</u>	<u>(3,738,022)</u>	-12.1%	<u>31,018,690</u>
Total assets	<u>50,735,728</u>	<u>(474,479)</u>	-0.9%	<u>51,210,207</u>	<u>(4,333,836)</u>	-7.8%	<u>55,544,043</u>
Total deferred outflows of resources	<u>2,109,204</u>	<u>(211,141)</u>	-9.1%	<u>2,320,345</u>	<u>-</u>		
Current liabilities:	2,543,829	(319,567)	-11.2%	2,863,396	30,899	1.1%	2,832,497
Long-term liabilities	<u>24,227,876</u>	<u>(1,970,029)</u>	-7.5%	<u>26,197,905</u>	<u>(795,988)</u>	-2.9%	<u>26,993,893</u>
Total liabilities	<u>26,771,705</u>	<u>(2,289,596)</u>	-7.9%	<u>29,061,301</u>	<u>(765,089)</u>	-2.6%	<u>29,826,390</u>
Total deferred inflows of resources	<u>824,262</u>	<u>213,940</u>	35.1%	<u>610,322</u>	<u>-</u>		<u>-</u>
Net investment in capital assets	5,308,065	(1,851,974)	-25.9%	7,160,039	361,196	5.3%	6,798,843
Restricted	-	-	-	-	(10,950,671)	-100.0%	10,950,671
Unrestricted	<u>19,940,900</u>	<u>3,242,010</u>	19.4%	<u>16,698,890</u>	<u>8,730,751</u>	109.6%	<u>7,968,139</u>
Total net position	<u>\$ 25,248,965</u>	<u>\$ 1,390,036</u>	5.8%	<u>\$ 23,858,929</u>	<u>\$ (1,858,724)</u>	-7.2%	<u>\$ 25,717,653</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 \$559,000, reduced long-term liabilities by 8%.

Investments in capital assets (land, structures, improvements, equipment, and construction in progress) make up 21% 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, 2016**

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. Actual available closure funds of \$2,769,968 are netted against a closure/post closure liability of \$3,539,532. The difference of 769,564 must be covered by unrestricted net position. The remaining unrestricted net position (\$19,171,336) 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 4% over the prior fiscal year, largely due to various short term contracts at both sites. A new recycling rebate contract along with the management's constant search for the best price per ton for resource recovery material both contributed to the 48% increase in other operating revenues.

Overall operating expenses modestly increased by 5%. Retiring Authority employees contributed to the largest reduction in personnel services of over \$400,000. Any replacements were hired as MCAG staff and leased under the professional services line item. This, along with soaring costs in mandatory monitoring and reporting have led to the 19% increase in professional services. Vendor price increases for rented/leased items are accountable for the 19% rise in costs. Even though the Authority processed higher landfilled tons than the 14/15 year, landfill best practices are responsible for the 16% decrease in closure and post closure expense. Closure and post closure expense was recorded per GASB 18; however, a pledge of revenue agreement with Cal Recycle allowed the minimum deposit of \$47,286 into the appropriate closure funds. During the current fiscal year, the Authority completed its project to solve ground water contamination and landfill gas migration issues at the Highway 59 landfill with actual costs exceeding original engineer estimates by \$360,000.

As the Authority moves forward with its pay-as-you-go philosophy, it has been successful in funding its budgeted transfers into reserves for capital projects, fleet purchases, and contingency. Modest balance increases in these invested funds led to \$44,000 more in interest earned over the prior year. A fair market value of just over 100% in the Authority's invested funds and the sale of a piece of heavy machinery are responsible for the positive gain of \$87,185 in investments. All debt issuance costs were expensed in the prior year with the 2015 refunding of the revenue bonds. The TDA Tire Grant of \$98,032 was a one-time grant in the 2014/15 fiscal year.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Activities: The following table summarizes the comparative changes in net position for the Authority's activities for the fiscal years ended June 30, 2016, 2015 and 2014.

	CHANGES IN NET POSITION						
	2016	\$	%	2015	\$	%	2014
OPERATING REVENUES							
Charges for services	\$ 11,801,923	\$ 432,586	3.8%	\$ 11,369,337	\$ 1,095,542	10.7%	\$ 10,273,795
Other	294,862	95,989	48.3%	198,873	(315,046)	-61.3%	513,919
Total operating revenues	<u>12,096,785</u>	<u>528,575</u>	4.6%	<u>11,568,210</u>	<u>780,496</u>	7.2%	<u>10,787,714</u>
OPERATING EXPENSES							
Personnel services	267,031	(402,845)	-60.1%	669,876	(472,233)	-41.3%	1,142,109
Special departmental	526,342	10,495	2.0%	515,847	39,113	8.2%	476,734
Professional services	3,096,048	496,575	19.1%	2,599,473	(33,182)	-1.3%	2,632,655
Repairs and equipment maintenance	709,124	5,350	0.8%	703,774	(92,168)	-11.6%	795,942
Rents and leases	9,038	1,433	18.8%	7,605	(6,626)	-46.6%	14,231
General and administrative	370,740	33,845	10.0%	336,895	59,651	21.5%	277,244
Utilities	61,580	5,411	9.6%	56,169	5,290	10.4%	50,879
Closure and postclosure care costs	349,645	(66,196)	-15.9%	415,841	(70,008)	-14.4%	485,849
Corrective action costs	358,647	358,647	0.0%	-	-	0.0%	-
Amortization and depreciation	4,460,852	75,779	1.7%	4,385,073	(77,787)	-1.7%	4,462,860
Bad debt expense (recovery)	(1,901)	(7,360)	-134.8%	5,459	(3,151)	0.0%	8,610
Total operating expenses	<u>10,207,146</u>	<u>511,135</u>	5.3%	<u>9,696,011</u>	<u>(651,102)</u>	-6.3%	<u>10,347,113</u>
Operating income (loss)	<u>1,889,639</u>	<u>17,440</u>	0.9%	<u>1,872,199</u>	<u>1,431,598</u>	324.9%	<u>440,601</u>
NONOPERATING REVENUES (EXPENSES)							
Interest income	146,001	44,370	43.7%	101,631	2,418	2.4%	99,213
Interest expense	(769,972)	39,330	-4.9%	(809,302)	381,095	-32.0%	(1,190,397)
Gain (loss) on investments	122,613	87,185	246.1%	35,428	(657,934)	-94.9%	693,362
Other revenues	1,755	(96,277)	-98.2%	98,032	34,399	54.1%	63,633
Total nonoperating revenues (expenses)	<u>(499,603)</u>	<u>346,759</u>	-41.0%	<u>(846,362)</u>	<u>(512,172)</u>	153.3%	<u>(334,190)</u>
Changes in net position	1,390,036	364,199	35.5%	1,025,837	919,426	864.0%	106,411
Net position - beginning	23,858,929	(1,858,724)	-7.2%	25,717,653	106,412	0.4%	25,611,241
Prior period adjustments	-	2,884,561	-100.0%	(2,884,561)	(2,884,561)	0.0%	-
Net position - ending	<u>\$ 25,248,965</u>	<u>\$ 1,390,036</u>	5.8%	<u>\$ 23,858,929</u>	<u>\$ (1,858,723)</u>	-7.2%	<u>\$ 25,717,652</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2016, the Authority's capital assets (net of accumulated depreciation) totaled \$24,020,226, 12% less than the \$27,280,668 at June 30, 2015.

The following table summarizes the changes in capital assets for the fiscal years ended June 30, 2016, 2015 and 2014:

	<u>CHANGES IN CAPITAL ASSETS</u>					
	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>	<u>2014</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	0.0%	7,731,295	
Infrastructure	22,759,138	0.0%	22,759,138	0.0%	22,759,138	
Buildings and improvements	4,099,731	0.1%	4,097,092	0.2%	4,088,532	
Equipment	11,584,981	6.9%	10,841,310	1.7%	10,656,304	
Construction in progress	643,392	20.5%	534,122	541.8%	83,217	
Accumulated depreciation	<u>(24,544,021)</u>	20.1%	<u>(20,427,999)</u>	27.3%	<u>(16,045,506)</u>	
 Total Capital Assets (Net of Accum. Depreciation)	 <u>\$ 24,020,226</u>	 -12.0%	 <u>\$ 27,280,668</u>	 -12.1%	 <u>\$ 31,018,690</u>	

Continued work on the landfill gas collection system for cell 6, and the environmental impact report for the valley fill accounted for the additional \$109,000 in construction in progress. Accumulated depreciation is 20% higher over the previous year; however, actual depreciation expense for 2016 is only 1.7% more than FY 2014/15. Various small pieces of obsolete office equipment were disposed of and a D7H bulldozer was auctioned. The book value of these items totaled \$345,000.

Long-Term Debt

Long-term debt totaled \$24,227,876 at June 30, 2016. This amount is comprised of an equipment lease with Kansas State Bank of \$56,625; closure and post closure liability for both Billy Wright and Highway 59 totaling \$3,539,532; \$1,783,719 of net pension liability; and bonds payable totaling \$18,848,000.

	<u>June 30, 2015</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>June 30, 2016</u>	<u>Amounts Due Within One Year</u>	<u>L-T Debt</u>
Closure and Postclosure	\$ 3,189,887	\$ 349,645	\$ -	\$ 3,539,532	\$ -	\$ 3,539,532
Capital Leases	319,905	-	(129,899)	190,006	133,381	56,625
Net Pension Liability	2,343,012	-	(559,293)	1,783,719	-	1,783,719
2015 Refunding Bond	<u>22,061,000</u>	<u>-</u>	<u>(1,586,000)</u>	<u>20,475,000</u>	<u>1,627,000</u>	<u>18,848,000</u>
 Total Long-Term Debt	 <u>\$ 27,913,804</u>	 <u>\$ 349,645</u>	 <u>\$ (2,275,192)</u>	 <u>\$ 25,988,257</u>	 <u>\$ 1,760,381</u>	 <u>\$ 24,227,876</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 \$559,293 in the current fiscal year. Also, an additional \$349,645 in closure and post closure liability was incurred.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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. The Authority also continues to benefit from its tentative relationships with various out-of-county customers. These favorable conditions favorably impacted the Authority. A new peak of 318,500 landfilled tons were processed; 12,000 more tons than the previous record year during the 2006 housing boom.

Despite its recent profitable years, the budget for 2016/17 continues to assume 260,000 disposed tons at various contracted rates. This conservative approach is based on the knowledge that a third of its total disposed tons are from out-of-county sources that could dissipate at any time. Approximately 226,000 tons originated solely within Merced County. Operating expenses were budgeted only 5% more than what was authorized in the 2015/16 fiscal year. The Authority also budgeted for reserve fund transfers into fleet replacement and capital projects of approximately \$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 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, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 22,177,032
Accounts receivable, net of allowance for doubtful accounts of \$23,089	1,135,860
Due from other agencies	526,734
Prepays	86,695
Supplies inventory	<u>19,213</u>

Total current assets 23,945,534

Noncurrent assets:

Cash and investments - restricted	2,769,968
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Capital assets:

Nondepreciable:

Land	1,745,710
Construction in progress	643,392

Depreciable assets:

Land improvements	7,731,295
Infrastructure	22,759,138
Buildings and improvements	4,099,731
Machinery and equipment	11,584,981
Less accumulated depreciation	<u>(24,544,021)</u>

Total capital assets, net 24,020,226

Total noncurrent assets 26,790,194

Total assets 50,735,728

DEFERRED OUTFLOWS OF RESOURCES

Loss on refunding of debt	1,952,845
Pension deferrals	<u>156,359</u>
Total deferred outflows of resources	<u>2,109,204</u>

Total assets and deferred outflows of resources \$ 52,844,932

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, 2016**

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$	643,905
Interest payable		44,947
Bond payable		1,627,000
Unearned revenue		94,596
Capital lease obligations		<u>133,381</u>
Total current liabilities		<u>2,543,829</u>

Long-term liabilities:

Bond payable		18,848,000
Capital lease obligations		56,625
Closure and postclosure care liability		3,539,532
Net pension liability		<u>1,783,719</u>
Total long-term liabilities		<u>24,227,876</u>

Total liabilities		<u>26,771,705</u>
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DEFERRED INFLOWS OF RESOURCES

Pension deferrals		<u>824,262</u>
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NET POSITION

Net investment in capital assets		5,308,065
Unrestricted		<u>19,940,900</u>

Total net position		<u>25,248,965</u>
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Total liabilities, deferred inflows of resources and net position	\$	<u><u>52,844,932</u></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, 2016**

OPERATING REVENUES	
Charges for services	\$ 11,801,923
Other	<u>294,862</u>
Total operating revenues	<u>12,096,785</u>
OPERATING EXPENSES	
Personnel services	267,031
Special departmental	526,342
Professional services	3,096,048
Repairs and equipment maintenance	709,124
Rents and leases	9,038
General and administrative	370,740
Utilities	61,580
Closure and postclosure care costs	349,645
Corrective action costs	358,647
Amortization and depreciation	4,460,852
Bad debt recovery	<u>(1,901)</u>
Total operating expenses	<u>10,207,146</u>
Operating income (loss)	<u>1,889,639</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	146,001
Interest expense	(769,972)
Gain (loss) on investments	122,613
Other revenues	<u>1,755</u>
Total nonoperating revenues (expenses)	<u>(499,603)</u>
Change in net position	1,390,036
Net position - beginning	<u>23,858,929</u>
Net position - ending	<u>\$ 25,248,965</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, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 12,008,067
Payments to suppliers	(5,557,524)
Payments to, or on behalf of, employees for services	<u>(423,390)</u>
Net cash provided (used) by operating activities	<u>6,027,153</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other revenues	<u>1,755</u>
Net cash provided (used) by noncapital financing activities	<u>1,755</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(1,586,000)
Acquisition of capital assets	(1,200,410)
Capital lease payments	(129,900)
Proceeds from the sale of assets	44,536
Interest paid	<u>(595,930)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,467,704)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from interest and land rentals	<u>146,001</u>
Net cash provided (used) by investing activities	<u>146,001</u>
Net increase (decrease) in cash and cash equivalents	2,707,205
Cash and cash equivalents - beginning	<u>22,239,795</u>
Cash and cash equivalents - ending	<u>\$ 24,947,000</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents	\$ 22,177,032
Cash and investments - restricted	<u>2,769,968</u>
Total cash and cash equivalents	<u>\$ 24,947,000</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, 2016**

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

Operating income (loss)	\$ 1,889,639
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	4,460,852
(Gain) loss on sale of assets	(44,537)
Bad debt recovery	(1,901)
Closure and postclosure care costs	349,645
(Increase) decrease in:	
Accounts receivable	(104,154)
Inventories	(1,630)
Prepaid items	28,926
Deferred outflows of resources for loss on refunding of debt	177,532
Deferred outflows of resources for pensions	33,609
Increase (decrease) in:	
Accounts payable and other liabilities	(432,812)
Unearned revenue	17,337
Increase in net pension liability	(559,293)
Deferred inflows of resources for pensions	<u>213,940</u>
Net cash provided (used) by operating activities	<u>\$ 6,027,153</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, 2016

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, 2016**

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 \$23,089 of allowance for doubtful accounts during the fiscal year ended June 30, 2016.

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 \$643,905 as of June 30, 2016, 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, 2016**

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, 2016 consisted of the following:

	Carrying Amount
Cash and cash equivalents	\$ 4,043,066
County of Merced Treasurer's Investment Pool	18,078,331
Local Agency Investment Fund	2,825,603
Total cash and investments	\$ 24,947,000

Cash and investments as of June 30, 2016 were classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 22,177,032
Cash and investments - restricted	2,769,968
Total cash and investments	\$ 24,947,000

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016 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, 2016, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately 468 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 \$18,078,331 as of June 30, 2016.

Local Agency Investment Fund

The Authority 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, 2016 balance was \$2,825,603. A breakdown of the investments included in the balance is not available at the balance sheet date.

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, 2016, 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	86%	\$ 18,078,331
Local Agency Investment Fund	AAA	AAA	14%	2,825,603
Total			<u>100%</u>	<u>\$ 20,903,934</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016:

- Investment in County of Merced Treasurer's Investment Pool: valued at \$18,078,331, 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, 2016 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.
- Investment in the Local Agency Investment Fund: valued at \$2,825,603, based on the Authority's pro-rata share of the fair value provided by the LAIF for the entire LAIF portfolio. LAIF 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, 2016, capital assets consisted of the following:

	Balances June 30, 2015	Additions	Deletions	Balances June 30, 2016
Capital assets, not being depreciated:				
Land reserved for landfill	\$ 1,745,710	\$ -	\$ -	\$ 1,745,710
Construction in progress	<u>534,122</u>	<u>109,270</u>	<u>-</u>	<u>643,392</u>
Total capital assets, not being depreciated	<u>2,279,832</u>	<u>109,270</u>	<u>-</u>	<u>2,389,102</u>
Capital assets, being depleted:				
Land improvements	<u>7,731,295</u>	<u>-</u>	<u>-</u>	<u>7,731,295</u>
Total capital assets, being depleted	<u>7,731,295</u>	<u>-</u>	<u>-</u>	<u>7,731,295</u>
Capital assets, being depreciated:				
Infrastructure	22,759,138	-	-	22,759,138
Buildings and improvements	4,097,092	2,639	-	4,099,731
Machinery and equipment	<u>10,841,310</u>	<u>1,088,501</u>	<u>(344,830)</u>	<u>11,584,981</u>
Total capital assets, being depreciated	<u>37,697,540</u>	<u>1,091,140</u>	<u>(344,830)</u>	<u>38,443,850</u>
Less accumulated depreciation	<u>(20,427,999)</u>	<u>(4,460,852)</u>	<u>344,830</u>	<u>(24,544,021)</u>
Total capital assets, being depreciated, net	<u>17,269,541</u>	<u>(3,369,712)</u>	<u>-</u>	<u>13,899,829</u>
Total capital assets	<u>\$ 27,280,668</u>	<u>\$ (3,260,442)</u>	<u>\$ -</u>	<u>\$ 24,020,226</u>

Depreciation expense for the year ended June 30, 2016 was \$4,460,852.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – LONG-TERM DEBT

The following is a schedule of long-term liabilities for the year ended June 30, 2016:

	June 30, 2015	Incurred or Issued	Satisfied or Matured	June 30, 2016	Amounts Due Within One Year
Closure and Postclosure	\$ 3,189,887	\$ 349,645	\$ -	\$ 3,539,532	\$ -
Capital Leases	319,905	-	(129,899)	190,006	133,381
Net Pension Liability	2,343,012	-	(559,293)	1,783,719	-
2015 Refunding Bond	<u>22,061,000</u>	<u>-</u>	<u>(1,586,000)</u>	<u>20,475,000</u>	<u>1,627,000</u>
Total	<u>\$ 27,913,804</u>	<u>\$ 349,645</u>	<u>\$ (2,275,192)</u>	<u>\$ 25,988,257</u>	<u>\$ 1,760,381</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 \$3,539,532 reported as landfill closure and postclosure care liability, at June 30, 2016, represents the cumulative amount reported to date based on the landfill capacity used to date, calculated at 27% and 6% for Highway 59 and Billy Wright Landfills, respectively, at June 30, 2016. The Authority will recognize the remaining estimated cost of closure and postclosure care of \$23,672,876 as the remaining estimated capacity is filled over the estimated 38-58 years remaining at June 30, 2016. This amount is based on current estimates of remaining closure and postclosure care costs at June 30, 2016. 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. 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.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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 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, 2016:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
Thereafter	<u>13,705,000</u>	<u>1,502,331</u>	<u>15,207,331</u>
Total	<u>\$ 20,475,000</u>	<u>\$ 3,423,958</u>	<u>\$ 23,898,958</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, 2016, the Authority included the following amounts that have been capitalized under lease purchase agreements:

Machinery and equipment	\$ 7,383,008
Less accumulated depreciation	<u>(6,487,912)</u>
Total	<u>\$ 895,096</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 136,800
2018	<u>57,002</u>
Total future minimum lease payments	193,802
Less amount representing interest	<u>(3,796)</u>
Present value of minimum lease payments	<u>\$ 190,006</u>

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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.

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, 2016**

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

The Plans' provisions and benefits in effect at June 30, 2016 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	49.83%	47.52%	45.44%	47.44%

⁽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, 2016, the contributions recognized as part of pension expense for the Plan were \$197,750.

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

As of June 30, 2016, the Authority reported net pension liability for its proportionate share of the net position liability of the Plan as \$1,783,719.

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2015, 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, 2014, rolled forward to June 30, 2015, 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, 2014 and 2015 was as follows:

	<u>General</u>
Proportion - June 30, 2014	0.52%
Proportion - June 30, 2015	<u>0.38%</u>
Change - Increase (Decrease)	<u>(0.14%)</u>

For the year ended June 30, 2016, the Authority recognized pension expense of \$68,773. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 156,359	\$ -
Differences between actual and expected experience	-	(35,697)
Change in employer's proportion		(761,856)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(2,000)
Net differences between projected and actual earnings on plan investments	-	<u>(24,710)</u>
Total	<u>\$ 156,359</u>	<u>\$ (824,263)</u>

\$156,359 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:

<u>Year Ended June 30</u>	
2016	\$ (165,113)
2017	(165,115)
2018	(59,721)
2019	(298,764)
2020	-
Thereafter	-

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – PENSION PLANS (Continued)

C. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>General</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Discount Rate	7.75%
Inflation	3.00%
	3.00% plus merit component based
Projected Salary Increase	on years of service
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 or 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, 2016**

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, 2015 and June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation		Long Term Expected Real Rate of Return	
	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2015	FYE June 30, 2014
US Equity	28.4%	28.4%		
US Large Cap			5.10%	5.30%
US Small Cap			5.50%	5.60%
International Equity	17.5%	17.5%	5.70%	5.60%
Emerging Markets Equity	6.1%	6.1%	6.50%	6.40%
Private Equity	7.0%	7.0%	7.50%	7.70%
Real Estate	8.0%	8.0%	3.70%	0.70%
Domestic Fixed Income	14.5%	14.5%	0.50%	3.90%
High Yield Fixed Income	5.0%	5.0%	3.00%	2.60%
Hedge Funds	4.5%	4.5%	2.80%	2.10%
Infrastructure	3.0%	3.0%	3.50%	2.80%
Natural Resources	3.0%	3.0%	5.30%	3.70%
Bank Loans	3.0%	3.0%	2.40%	5.00%
Cash	0.0%	0.0%	-0.50%	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:

	General
1% Decrease	6.75%
Net Pension Liability	\$2,313,228
Current Discount Rate	7.75%
Net Pension Liability	\$1,783,719
1% Increase	8.75%
Net Pension Liability	\$1,342,413

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, 2016, the Authority did not report a payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – PRONOUNCEMENTS

(1) New Accounting Pronouncements Adopted

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 of this statement were implemented by the Authority during the current fiscal year.

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 of this statement were considered but had no effect on the Authority’s current fiscal year.

Governmental Accounting Standards Board Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The requirements of this statement were considered but had no effect on the Authority’s current fiscal year.

Governmental Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement was adopted by the Authority during the current fiscal year. The effects of the adoption of this statement included a change in the manner covered payroll is reported in the following required supplementary schedules: Proportionate Share of Net Pension Liability (Asset) and Schedule of Contributions. These changes were required to be applied retroactively and, accordingly, the covered payroll for fiscal year 2015 was restated.

MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – PRONOUNCEMENTS (Continued)

(2) New Accounting Pronouncements Not Yet Adopted

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, 2018.

Governmental Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 81

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for the Authority's fiscal year ending June 30, 2018, and should be applied retroactively.

REQUIRED SUPPLEMENTARY INFORMATION

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
 PROPORTIONATE SHARE OF NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2016
 LAST 10 YEARS***

	<u>2015</u>	<u>2016</u>
Proportion of the net pension liability	0.5202%	0.3845%
Proportionate share of the net pension liability	\$ 2,343,012	\$ 1,783,719
Covered payroll	\$ 527,862	\$ 429,981
Proportionate share of the net pension liability as percentage of covered payroll	128.93%	414.84%
Plan fiduciary net position as a percentage of the total pension liability	52.85%	59.20%

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, 2016
LAST 10 YEARS***

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

* 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, 2016, 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 1, 2016.

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 1, 2016

**MERCED COUNTY REGIONAL WASTE MANAGEMENT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016**

FINANCIAL STATEMENT FINDINGS

None reported.