

MIDWAY CITY SANITARY DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2013

MIDWAY CITY SANITARY DISTRICT

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For the year ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Midway City Sanitary District
Westminster, California

We have audited the accompanying financial statements of the Midway City Sanitary District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic 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.

Auditors' 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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the District'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 District'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Midway City Sanitary District as of June 30, 2013 and the respective 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, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

As discussed in Note 1b to the financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1b to the financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$205,013 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

OTHER MATTERS:

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefit plan - schedule of funding progress, as identified in the accompanying table of contents, 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 the 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 on them.

White Nelson Nick Evans LLP

Irvine, California
September 12, 2013

MIDWAY CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements.

The statement of net position includes all the District's assets and liabilities, with the difference between the two reported as net position. Implementation of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", resulted in the write off of the 2005 COP bond issuance costs as of fiscal year ended June 30, 2013. The District's Net Position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through service fees, franchise fees, and other changes.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operations
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

Financial Highlights

- The District's net position increased by \$5,375,567.
- During the year, the District's total revenues were \$11,841,528 while expenses totaled \$6,520,591.

Financial Analysis of the District

Net Position

The following is a summary of the District's statement of net position:

	<u>June 30, 2013</u>	<u>June 30, 2012 As Restated</u>	<u>Dollar Change</u>
<u>Assets:</u>			
Current assets	\$ 31,012,652	\$ 26,074,138	\$ 4,938,514
Restricted assets	979,029	979,029	-
Capital assets, net	20,407,451	20,562,671	(155,220)
Other assets	-	76,324	(76,324)
Total Assets	<u>52,399,132</u>	<u>47,692,162</u>	<u>4,706,970</u>
<u>Liabilities:</u>			
Current liabilities	1,222,043	1,091,114	130,929
Noncurrent liabilities	6,601,271	7,400,797	(799,526)
Total Liabilities	<u>7,823,314</u>	<u>8,491,911</u>	<u>(668,597)</u>
<u>Net Position:</u>			
Net investment in capital assets	13,151,383	13,836,638	(685,255)
Restricted net position	979,029	979,029	-
Unrestricted	30,445,406	24,384,584	6,060,822
Total Net Position	<u>\$ 44,575,818</u>	<u>\$ 39,200,251</u>	<u>\$ 5,375,567</u>

Midway City Sanitary District's net position increased by \$5,375,567 from fiscal year 2011-2012 to 2012-2013. Looking at this table at June 30, 2013 and June 30, 2012, you can see that most of the change in net position was in current assets, which increased \$4,706,970. The restricted assets of \$979,029 represent cash and cash equivalents held at the Bank of New York Trust Company, N.A. (the "Trustee" for the Certificate of Participation) (see page 8).

Unrestricted net position (those assets that can be used to finance day-to-day operations) increased \$6,060,822 and the net investment in capital assets, decreased by \$685,255.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

Financial Analysis of the District (Continued)

Revenues, Expenses and Changes in Net Position

The following is a summary of the District's revenues, expenses and changes in net position:

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012 As Restated	Dollar Change
Operating revenues	\$ 7,413,053	\$ 7,426,435	\$ (13,382)
Nonoperating revenues	4,428,475	3,053,578	1,374,897
Total Revenues	<u>11,841,528</u>	<u>10,480,013</u>	<u>1,361,515</u>
Operating expenses	5,495,293	5,480,955	14,338
Depreciation	711,302	730,576	(19,274)
Interest expense	313,996	338,365	(24,369)
Total Expenses	<u>6,520,591</u>	<u>6,549,896</u>	<u>(29,305)</u>
Net Position before capital contributions	5,320,937	3,930,117	1,390,820
Capital Contributions	54,630	-	54,630
Change in Net Position	<u>5,375,567</u>	<u>3,930,117</u>	<u>1,445,450</u>
Net Position at Beginning of Year, As Restated (Note 11)	<u>39,200,251</u>	<u>35,270,134</u>	<u>3,930,117</u>
Net Position at End of Year	<u>\$ 44,575,818</u>	<u>\$ 39,200,251</u>	<u>\$ 5,375,567</u>

The District's total revenues increased by \$1,361,515 from fiscal year 2012 and 2013. A majority of the increase is attributed to the elimination of the City of Westminster and the County of Orange Redevelopment Agencies in which the District has received additional pass-through funds due to their dissolution.

Capital Assets

Capital assets consist of the following at June 30, 2013 and June 30, 2012, respectively:

	June 30, 2013	June 30, 2012	Dollar Change
Capital assets not being depreciated:			
Land	\$ 92,948	\$ 92,948	\$ -
Construction in Progress	113,903	-	113,903
Total Capital Assets, Not Being Depreciated	<u>206,851</u>	<u>92,948</u>	<u>113,903</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

Capital Assets (Continued)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Dollar Change</u>
Capital assets being depreciated:			
Building and improvements	\$ 1,113,700	\$ 685,475	\$ 428,225
Pumping stations	5,297,054	5,297,054	-
Gravity lines and force mains	17,153,483	17,153,483	-
Resident containers	3,199,837	3,199,837	-
Refuse vehicles	2,359,336	2,359,336	-
Other vehicles	656,670	656,670	-
Other equipment	562,932	563,269	(337)
Total	<u>30,343,012</u>	<u>29,915,124</u>	<u>427,888</u>
Less: Accumulated Depreciation	<u>(10,142,412)</u>	<u>(9,445,401)</u>	<u>(697,011)</u>
 Total Capital Assets Being Depreciated, Net	 <u>20,200,600</u>	 <u>20,469,723</u>	 <u>(269,123)</u>
 Total Capital Assets, Net	 <u>\$ 20,407,451</u>	 <u>\$ 20,562,671</u>	 <u>\$ (155,220)</u>

The major capital asset additions and deletions for fiscal year ended June 30, 2013, totaled \$541,791, which included the refurbishment and rehabilitation of District facilities, buildings and yard, including the widening of the two main entrances/exit driveways on Cedarwood Ave. for \$387,625, AQMD compliant generator for \$40,600, used forklift for \$13,954, Parallel sewer main project on Van Buren \$113,903, and the disposal of one forklift (\$8,904) and a noncompliant generator (\$5,387).

Additional information on the District's capital assets can be found in Note 4 beginning on page 24 of this report.

Long-Term Liabilities and Debt Administration

The District's long-term liabilities and certificate of participation outstanding was \$7,460,830 at June 30, 2013.

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance at June 30, 2013</u>	<u>Payable Within One Year</u>
Certificates of participation	\$ 7,960,000	\$ -	\$ (660,000)	\$ 7,300,000	\$ 685,000
Bond discount	(49,925)	-	5,993	(43,932)	-
Cert. of participation, net	<u>7,910,075</u>	<u>-</u>	<u>(654,007)</u>	<u>7,256,068</u>	<u>685,000</u>
Compensated absences	<u>150,722</u>	<u>140,735</u>	<u>(130,627)</u>	<u>160,830</u>	<u>130,627</u>
 Totals	 <u>\$ 8,060,797</u>	 <u>\$ 140,735</u>	 <u>\$ (784,634)</u>	 <u>\$ 7,416,898</u>	 <u>\$ 815,627</u>

Additional information on the District's long-term debt can be found in Note 5 beginning on page 25 of this report.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

Economic Factors and Next Year's Budget and Rates

In June 2013, the Board of directors voted to keep residential sewer and solid waste (refuse) rates for the District at the current annual rates of \$87 per year for residential sewer services and the refuse fee per year is \$177. Additionally, in June 2010, the Board of directors approved a new ordinance to raise commercial, industrial, and nonresidential sewer rates. The ordinance applies a tiered rate dependent upon the level of demand of the commercial, industrial, and nonresidential business. The new commercial, industrial and nonresidential rates range from \$118.85 (very low demand) to \$457.49 (very high demand), per business unit per parcel.

These annual user fees will assist the District in undertaking capital improvement projects, including the future replacement and refurbishment of lift (pump) stations and the upsizing and replacing of sanitary sewer pipelines in the District, conversion of the District's solid waste fleet to alternative fuel trucks, the installation of an alternative fueling station and infrastructure upgrades, retire existing debt early (2015), and aggressively fund long-term employee benefits.

Contacting the District's Financial Manager

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Midway City Sanitary District at (714) 893-3553.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 30,673,042
Accounts receivable	131,478
Taxes receivable	166,438
Interest receivable	17,115
Prepaid expenses	24,579
Restricted:	
Cash and cash equivalents	979,029
TOTAL CURRENT ASSETS	<u>31,991,681</u>

NONCURRENT ASSETS:

Capital assets:	
Non-depreciable	206,851
Depreciable, net	20,200,600
TOTAL NONCURRENT ASSETS	<u>20,407,451</u>

TOTAL ASSETS	<u>52,399,132</u>
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LIABILITIES AND NET POSITION

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	236,297
Accrued expenses	43,466
Accrued interest payable	126,653
Compensated absences, current portion	130,627
Certificates of participation, current portion	685,000
TOTAL CURRENT LIABILITIES	<u>1,222,043</u>

LONG-TERM LIABILITIES:

Compensated absences, net of current portion	30,203
Certificates of participation, net of current portion	6,571,068
TOTAL LONG-TERM LIABILITIES	<u>6,601,271</u>

TOTAL LIABILITIES	<u>7,823,314</u>
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NET POSITION:

Net investment in capital assets	13,151,383
Restricted for debt service	979,029
Unrestricted	30,445,406
TOTAL NET POSITION	<u>\$ 44,575,818</u>

See independent auditors' report and notes to financial statements.

MIDWAY CITY SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2013

OPERATING REVENUES:	
Service fees	\$ 6,705,980
Franchise fees	681,039
Permit, inspection and connection fees	<u>26,034</u>
TOTAL OPERATING REVENUES	<u>7,413,053</u>
OPERATING EXPENSES:	
Solid waste disposal	3,239,823
General administration	1,475,780
Sewage collection	779,690
Depreciation	<u>711,302</u>
TOTAL OPERATING EXPENSES	<u>6,206,595</u>
OPERATING INCOME	<u>1,206,458</u>
NONOPERATING REVENUES (EXPENSES):	
Property taxes	4,314,765
Investment income	83,246
Other revenues	29,864
Gain on sale of capital assets	600
Interest expense	<u>(313,996)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>4,114,479</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	5,320,937
CAPITAL CONTRIBUTIONS	<u>54,630</u>
CHANGE IN NET POSITION	5,375,567
NET POSITION AT BEGINNING OF YEAR, AS RESTATED (NOTE 11)	<u>39,200,251</u>
NET POSITION AT END OF YEAR	<u><u>\$ 44,575,818</u></u>

See independent auditors' report and notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 7,328,336
Payments to suppliers	(3,906,146)
Payments to employees	(1,518,126)
Other revenues	<u>29,864</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,933,928</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	<u>4,737,541</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>4,737,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(556,082)
Capital contributions	54,630
Proceeds from sale of capital assets	600
Principal paid on certificates of participation	(660,000)
Interest and fiscal charges paid on certificates of participation	<u>(318,178)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,479,030)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>86,571</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>86,571</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,279,010
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>26,373,061</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 31,652,071</u></u>

See independent auditors' report and notes to financial statements.

(Continued)

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2013

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 1,206,458
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	711,302
Other revenues	29,864
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(84,717)
(Increase) decrease in prepaid expenses	(888)
(Increase) decrease in net OPEB asset	76,324
Increase (decrease) in accounts payable	(23,724)
Increase (decrease) in accrued expenses	9,201
Increase (decrease) in compensated absences	10,108
Total adjustments	<u>727,470</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,933,928</u></u>

CASH AND CASH EQUIVALENTS -
FINANCIAL STATEMENT CLASSIFICATION:

Current assets	\$ 30,673,042
Restricted assets	<u>979,029</u>

TOTAL CASH AND CASH EQUIVALENTS -
FINANCIAL STATEMENT CLASSIFICATION

\$ 31,652,071

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Amortization of bond discount	<u><u>\$ 5,993</u></u>
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See independent auditors' report and notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization:

The Midway City Sanitary District (the District) operates as authorized by the State of California. The Health and Safety Code of California (the Sanitary District Act of 1923) is the governing law. In addition, the County of Orange has determined (through LAFCO) the sphere of influence of the District's boundaries. The District services areas in Westminster and the unincorporated areas of the County of Orange known as Midway City.

The District is operated by a general manager, administrative staff and field personnel. The general manager is hired by a five member Board of Directors who are elected by the public to a four year term.

Activities of the District include the following:

- The provisions of local sewage collection service to properties within the District.
- The maintenance and cleaning of sewage collection lines.
- The approval of plans and the inspection of the construction of sewers built within the District by developers.
- The provision for trash and solid waste collection and disposal for residences.
- The contracts with a third party for trash and solid waste collection of commercial, industrial and businesses.

The District owns and operates vehicles for the above purposes and also owns property on which the District office and truck facilities are located including a garage and other buildings for the purpose of servicing and maintaining trucks and sewer lines. The District has contracted with a third party for the collection of solid waste collected in bins.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies:

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Presentation:

The accounts of the District are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting:

“Measurement focus” is a term used to describe *which* transactions are recorded within the various financial statements. “Basis of accounting” refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus”, and the “accrual basis of accounting”. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

GASB Pronouncements Implemented:

In fiscal year 2012-2013, the District implemented GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, “*Elements of Financial Statements*” into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

See independent auditors’ report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies (Continued):

GASB Pronouncements Implemented (Continued):

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, debt issuance costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 by \$205,013, which is the amount of unamortized debt issuance costs at July 1, 2012.

GASB Pending Accounting Standards:

GASB has issued the following statements which may impact the District’s financial reporting requirements in the future:

- GASB 66 - “*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*”, effective for periods beginning after December 15, 2012.
- GASB 67 - “*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*”, effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - “*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*”, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - “*Government Combinations and Disposals of Government Operations*”, effective for periods beginning after December 15, 2013.
- GASB 70 - “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”, effective for the periods beginning after June 15, 2013.

See independent auditors’ report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies (Continued):

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any applicable deferred inflows of resources.

Net Position Flow Assumption:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Operating Revenues and Expenses:

Operating revenues, such as charges for services (service fees and franchise fees) result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values.

Nonoperating revenues, such as property taxes and assessments, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies (Continued):

Operating Revenues and Expenses (Continued):

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

Investments:

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Allowance for Doubtful Accounts:

Management believes that all accounts receivable were fully collectible; therefore no allowance for doubtful accounts was recorded as of June 30, 2013.

Property Taxes:

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1 % of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the County of Orange (County). The County acts as a collection agent for the property taxes which are normally collected twice a year.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	March 1
Due Dates:	First Installment - November 1 Second Installment - March 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies (Continued):

Capital Assets:

Acquisitions of capital assets are recorded at cost. Contributed assets are recorded at their fair market value at the date of donation. Self-constructed assets are recorded at the amount of direct labor, material, certain overhead and interest costs. Additions, improvements and other capital outlays of \$5,000 or more that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation is calculated on the straight-line method over the following estimated useful lives:

Building and improvements	10 to 25 years
Pumping stations	40 years
Gravity lines and force mains	75 years
Resident containers	10 years
Refuse vehicles	8 years
Other vehicles	5 to 8 years
Other equipment	5 to 10 years

Compensated Absences:

The District permits its employees to accumulate vacation and sick leave. The maximum amount of accumulated vacation and sick leave allowed are 20 and 24 days, respectively. Any sick time in excess of the maximum is paid to the employee with the first regular payment of wages during the month of December. At termination or retirement, all vacation and fifty percent of the sick leave accumulated is paid to the employee. Compensated absences totaled \$160,830 at June 30, 2013.

Cash and Cash Equivalents:

For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity of three months or less (excluding restricted assets held by bond trustees) to be cash and cash equivalents.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

b. Significant Accounting Policies (Continued):

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2013 are reported in the accompanying statement of net position as follows:

Current Assets:

Cash and cash equivalents	\$ 30,673,042
Restricted cash and cash equivalents	<u>979,029</u>
Total Cash and Investments	<u>\$ 31,652,071</u>

Cash and investments as of June 30, 2013 consisted of the following:

Cash on hand	\$ 200
Deposits with financial institutions	766,857
Investments	<u>30,885,014</u>
Total Cash and Investments	<u>\$ 31,652,071</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Quality Requirements</u>
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Certificates of Deposit	1 year	30%	None
Money Market Funds	N/A	20%	Multiple
California Local Agency Investment Fund	N/A	None	None
CalTRUST Investment Pool	N/A	None	None

N/A - Not Applicable

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Bankers Acceptance	180 days	None	None
Commercial Paper	270 days	None	None
Open Ended Money Market Mutual Funds	N/A	None	None
Guaranteed Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2013.

	Maturity In Years
	Less Than 1 Year
California Local Agency Investment Fund (LAIF)	\$ 28,664,668
CalTRUST Investment Pool	1,241,317
Held by Bond Trustee:	
Money Market Mutual Fund	979,029
Total Cash and Investments	\$ 30,885,014

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual Standard and Poor's credit rating as of June 30, 2013 for each investment type.

Investment Type	Minimum Legal Rating	Total	Not Rated	AAA
California Local Agency Investment Fund (LAIF)	N/A	\$ 28,664,668	\$ 28,664,668	\$ -
CalTRUST Investment Pool	N/A	1,241,317	1,241,317	-
Held by Bond Trustee:				
Money Market Mutual Fund	A	<u>979,029</u>	<u>-</u>	<u>979,029</u>
		<u>\$ 30,885,014</u>	<u>\$ 29,905,985</u>	<u>\$ 979,029</u>

N/A - Not Applicable

Concentration of Credit Risk:

Concentration of credit is the risk of loss attributed to the magnitude to the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code. The District holds no investments in any one issuer (other than U. S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution's trust department. As of June 30, 2013, none of the District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Investment in CalTRUST Investment Pool:

CalTRUST is a Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. CalTRUST maintains and administers four pooled accounts within the program: Money Market, Short-Term, Medium-Term and Long-Term. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice. All CalTRUST accounts comply with the limits and restrictions placed on local agency investments by the California Government Code. CalTRUST imposes a \$250,000 minimum investment; however, there is no maximum limit. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's percentage interest of the fair value provided by CalTRUST for the CalTRUST accounts (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following:

<u>Funding Source</u>	<u>Use</u>	
Proceeds of certificates of participation and interest earnings	Bond reserves	<u>\$ 979,029</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. CAPITAL ASSETS:

Capital assets consist of the following at June 30, 2013:

	Balance <u>July 1, 2012</u>	Additions	Deletions	Balance <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 92,948	\$ -	\$ -	\$ 92,948
Construction in progress	<u>-</u>	<u>542,128</u>	<u>(428,225)</u>	<u>113,903</u>
Total capital assets, not being depreciated	<u>92,948</u>	<u>542,128</u>	<u>(428,225)</u>	<u>206,851</u>
Capital assets, being depreciated:				
Building and improvements	685,475	428,225	-	1,113,700
Pumping stations	5,297,054	-	-	5,297,054
Gravity lines and force mains	17,153,483	-	-	17,153,483
Resident containers	3,199,837	-	-	3,199,837
Refuse vehicles	2,359,336	-	-	2,359,336
Other vehicles	656,670	-	-	656,670
Other equipment	<u>563,269</u>	<u>13,954</u>	<u>(14,291)</u>	<u>562,932</u>
Total capital assets, being depreciated	<u>29,915,124</u>	<u>442,179</u>	<u>(14,291)</u>	<u>30,343,012</u>
Less accumulated depreciation for:				
Buildings and improvements	(359,058)	(31,839)	-	(390,897)
Pumping stations	(408,314)	(132,426)	-	(540,740)
Gravity lines and force mains	(3,061,808)	(228,713)	-	(3,290,521)
Resident containers	(2,767,312)	(81,445)	-	(2,848,757)
Refuse vehicles	(1,777,763)	(148,680)	-	(1,926,443)
Other vehicles	(472,538)	(37,659)	-	(510,197)
Other equipment	<u>(598,608)</u>	<u>(50,540)</u>	<u>14,291</u>	<u>(634,857)</u>
Total accumulated depreciation	<u>(9,445,401)</u>	<u>(711,302)</u>	<u>14,291</u>	<u>(10,142,412)</u>
Total capital assets, being depreciated, net	<u>20,469,723</u>	<u>(269,123)</u>	<u>-</u>	<u>20,200,600</u>
Total capital assets, net	<u>\$ 20,562,671</u>	<u>\$ 273,005</u>	<u>\$ (428,225)</u>	<u>\$ 20,407,451</u>

Depreciation expense for the depreciable capital assets was \$711,302 in 2013.

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MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. LONG-TERM LIABILITIES:

Long-term liabilities consist of the following at June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year	Due in More Than One Year
Certificates of participation	\$ 7,960,000	\$ -	\$ (660,000)	\$ 7,300,000	\$ 685,000	\$ 6,615,000
Bond discount	(49,925)	-	5,993	(43,932)	-	(43,932)
Certificates of Participation, net	7,910,075	-	(654,007)	7,256,068	685,000	6,571,068
Compensated absences	150,722	140,735	(130,627)	160,830	130,627	30,203
Totals	<u>\$ 8,060,797</u>	<u>\$ 140,735</u>	<u>\$ (784,634)</u>	<u>\$ 7,416,898</u>	<u>\$ 815,627</u>	<u>\$ 6,601,271</u>

Certificates of Participation:

The 2005 Series SS Certificates of Participation were issued on November 29, 2005, for the purpose of financing the acquisition of certain sanitary sewer improvements by the District. The Certificates bear interest ranging from 3% to 4.375% and are payable semi-annually on February 1 and August 1. The Certificates were issued with original bond discount of \$89,874, which will be amortized annually on a straight-line basis over the life of the bonds. The Certificates are due August 1, 2021. Certificates of participation outstanding total \$ 7,300,000 at June 30, 2013. Debt service requirements on the certificates of participation as of June 30, 2013, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 685,000	\$ 291,124	\$ 976,124
2015	715,000	263,980	978,980
2016	740,000	234,880	974,880
2017	770,000	204,295	974,295
2018	805,000	171,404	976,404
2019 - 2022	<u>3,585,000</u>	<u>320,180</u>	<u>3,905,180</u>
Subtotal	7,300,000	1,485,863	8,785,863
Less: Discount	(43,932)	-	(43,932)
Total	<u>\$ 7,256,068</u>	<u>\$ 1,485,863</u>	<u>\$ 8,741,931</u>

The Certificates of Participation are subject to federal arbitrage regulations. The District has no arbitrage liability as of June 30, 2013.

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MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. DESIGNATIONS OF NET POSITION:

The designated balances of unrestricted net position established by the Board of Directors as of June 30, 2013, are as follows:

Vehicle replacement	\$ 1,098,850
Lift (pump) station and sewer lines	6,823,462
Orange County, Midway City	1,071,990
Alternative energy vehicle and fueling station	2,209,477
Debt payoff	<u>3,012,924</u>
Total Designations	14,216,703
Undesignated net position	<u>16,228,703</u>
Total Unrestricted Net Position	<u>\$ 30,445,406</u>

7. DEFINED BENEFIT PENSION PLAN:

Plan Description:

The District participates in the 3% at 60 (Tier I), 2% at 55 (Tier II) and 2% at 62 (Tier III) Risk Pools of the California Public Retirement Plan System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. Benefit provisions as well as other requirements is established by State Statutes within the Public Employees Retirement Law. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPER's annual financial report may be obtained from the CalPERS executive office - 400 P Street - Sacramento, California 95814.

Funding Policy:

Active plan members of Tier I are required to contribute 8% of their annual covered salaries. This plan was closed to new members before the implementation of the California Employees' Pension Reform Act (PEPRA) on January 1, 2013. Tier I contains only classic members (employees hired before January 1, 2013) for which the District pays 6% of the employee contribution on behalf of the employee. Tier II is open to qualified employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the PERS System) and requires members to contribute 7% of their annual covered salaries of which 4% is paid by the District on behalf of the employee. Tier III was created by PEPRA as of January 1, 2013 and is open to all new employees who do not qualify for Tier II. Active plan members of Tier III are required to contribute 6.25% of their annual covered salary. PEPRA does not allow the District to pay any portion of the employee required contribution on behalf of the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members under the California Employees' Pension Reform Act (PEPRA) provisions. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

7. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Funding Policy (Continued):

The required employer contribution rate for the fiscal years ended June 30, 2013, 2012 and 2011 for Tier I were 15.302%, 14,826% and 12.725%, respectively. The required employer contribution rate for the fiscal years ended June 30, 2013, 2012 and 2011 for Tier II were 10.238%, 7.684% and 7,740%, respectively. The required employer contribution rate of the fiscal year ended June 30, 2013 for Tier III was 6.25%. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's total contributions for all Tiers for the years ended June 30, 2013, 2012 and 2011 were \$321,826, \$292,914 and \$311,642, respectively, which were equal to the required contributions each year.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB):

Plan Description:

The District, through a single employer defined benefit plan, provides retiree medical (including prescription drug benefits) coverage to eligible retirees and their eligible dependents through the CalPERS Health Program. The District pays the monthly premium for the retired employee, the employee's spouse and any surviving spouse, subject to a maximum per retiree and spouse. The monthly cap was \$1,300 for 2012, increased to \$1,325 for 2013. The District's contribution will continue for the lifetime of the retiree and any surviving eligible spouse. Eligibility for retiree medical benefits is based on age, service and the receipt of monthly pension payments from CalPERS.

Funding Policy and Annual OPEB Costs:

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funding Policy and Annual OPEB Costs (Continued):

The following table shows the components of the District's annual OPEB cost for the current year, the amount actually contributed to the Plan including benefits paid to retirees, and changes in the District's net OPEB asset or obligation for the year ended June 30, 2013:

Annual required contribution	\$ 341,345
Interest on net OPEB obligation	(5,724)
Investment earning, net of expenses	<u>5,724</u>
Annual OPEB cost	341,345
Contributions (including benefits paid)	<u>(265,021)</u>
Decrease in net OPEB obligation	76,324
Net OPEB Obligation (Asset) - beginning of year	<u>(76,324)</u>
Net OPEB Obligation (Asset) - end of year	<u>\$ -</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2013, 2012 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Asset)
6/30/11	\$ 347,540	100%	\$ -
6/30/12	341,345	122%	(76,324)
6/30/13	341,345	100%	-

Funding Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 15.24% funded. The actuarial accrued liability for benefits was \$3,451,560, and the actuarial value of assets was \$526,085, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,925,475. The covered payroll (annual payroll of active employees covered by the plan) was \$1,592,879 and the ratio of the UAAL to the covered payroll was 183.66%.

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MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funding Status and Funding Progress (Continued):

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the formal Plan document and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits and costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefits obligation is the Entry Age Normal Method. The actuarial assumptions include a 7.5% discount rate which, along with some other assumptions, is mandated by CalPERS for those plans being pre funded through CalPERS. The medical trend rate was 10% for the current year, reduced by decrements of 1% per year to an ultimate rate of 5% after the fifth year. The UAAL is being amortized using the level dollar method on a closed basis over 30 years.

9. RISK MANAGEMENT:

The District is insured through Solid Waste Insurance Managers, Inc. At June 30, 2013, the District's insurance coverages were as follows:

Property Loss - Buildings and business personal property insured up to \$1,950,354 and \$531,150, respectively, with \$1,000 deductible per occurrence.

General Liability -Insured up to \$2,000,000 with a maximum of \$1,000,000 per occurrence and a \$1,000 deductible per occurrence.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

9. RISK MANAGEMENT (CONTINUED):

Insurance Coverages (Continued):

Excess Liability - Insured up to \$10,000,000 per occurrence and in aggregate with \$10,000 self-insured retention.

Earthquake - Insured up to \$2,440,905 with \$25,000 deductible per occurrence, except for certain buildings, to which deductibles range from 1% to 10% per occurrence.

Flood - Insured up to \$2,440,905 with a deductible of \$50,000 or 2%, whichever is greater, per occurrence.

Auto Liability - Insured up to \$1,000,000 per occurrence with \$5,000 deductible per occurrence. Auto physical damage insured for the lesser of actual cash value or cost to repair with a \$1,000 deductible for comprehensive and collision coverage on class I vehicles and \$2,000 deductible on class II vehicles.

Equipment - Insured up to \$2,760,305 with a \$2,500 deductible per occurrence.

Miscellaneous Tools - Insured up to \$15,000 with \$1,000 deductible per occurrence.

Electronic Data Processing - Hardware insured up to \$15,000 and software insured up to \$22,500 with \$1,000 deductible per occurrence.

Public Officials' and Employment Practices Liability - Insured up to \$10,000,000 per occurrence with \$25,000 self-insured retention.

Crime - Employee dishonesty insured up to \$50,000, forgery/alteration insured up to \$50,000, theft, inside or outside the premises theft of money or securities insured up to \$50,000, all with a \$1,000 deductible per occurrence.

Contractor's Pollution Liability - Insured up to \$1,000,000 per occurrence with \$25,000 self-insured retention.

Workers' Compensation - Insured up to \$1,000,000 per occurrence.

There were no instances in the past three years where a settlement exceeded the District's coverage and no reduction in insurance coverage has occurred.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

10. COMMITMENTS AND CONTINGENCIES:

Litigation:

There are potential lawsuits in which the District may be involved. The District's management and legal counsel estimate that potential claims against the District, not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of the District.

11. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

Note 1b describes the GASB pronouncements the District is adopting for this and the prior fiscal years. There is a financial impact for the adoption of GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”*.

Implementation of GASB Statement No. 65 recognizes cost of issuance as an expense therefore the adoption of this statement resulted in the restatement of net position as of July 1, 2012. The net position and bond issuance costs were both decreased by \$205,013 as of July 1, 2012.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2013 have been evaluated for possible adjustments to the financial statements or disclosure as of September 12, 2013, which is the date these financial statements were available to be issued.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS**

MIDWAY CITY SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2013

**OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/c]
7/1/2009	\$ -	\$ 3,251,807	\$ 3,251,807	0.00%	\$ 1,706,180	190.59%
7/1/2011	526,085	3,451,560	2,925,475	15.24%	1,592,879	183.66%

See independent auditors' report and notes to financial statements.