

**MIDWAY CITY SANITARY DISTRICT**

**FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT**  
**BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

MIDWAY CITY SANITARY DISTRICT

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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, 2016, 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 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 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, 2016 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.

## Other Matter

### *Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, and the other post-employment benefit plan - schedule of funding progress, identified as Required Supplementary Information (RSI) 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 RSI 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 RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*White Nelson Dick Evans LLP*

Irvine, California  
October 3, 2016

MIDWAY CITY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016. 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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. 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.

MIDWAY CITY SANITARY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2016

**Financial Highlights**

- The District's net position increased by \$4,939,221.
- During the year, the District's total revenues were \$11,376,591 while expenses totaled \$6,437,370.

**Financial Analysis of the District**

**Net Position**

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Dollar Change</u>
<b><u>Assets:</u></b>			
Current assets	\$ 29,331,296	\$ 31,437,883	\$ (2,106,587)
Restricted assets	-	979,229	(979,229)
OPEB asset	1,674,413	1,703,698	(29,285)
Capital assets, net	<u>24,466,922</u>	<u>22,846,194</u>	<u>1,620,728</u>
Total Assets	<u>55,472,631</u>	<u>56,967,004</u>	<u>(1,494,373)</u>
 <u>Deferred Outflows of Resources: from pension</u>	 <u>257,031</u>	 <u>1,935,996</u>	 <u>(1,678,965)</u>
<b><u>Liabilities:</u></b>			
Current liabilities	536,774	1,787,901	(1,251,127)
Noncurrent liabilities	949,667	7,453,355	(6,503,688)
Total Liabilities	<u>1,486,441</u>	<u>9,241,256</u>	<u>(7,754,815)</u>
 <u>Deferred Inflows of Resources: from pension</u>	 <u>457,463</u>	 <u>815,207</u>	 <u>(357,744)</u>
<b><u>Net Position:</u></b>			
Net investment in capital assets	24,466,922	17,957,369	6,509,553
Restricted net position	-	979,229	(979,229)
Unrestricted	<u>29,318,836</u>	<u>29,909,939</u>	<u>(591,103)</u>
Total Net Position	<u>\$ 53,785,758</u>	<u>\$ 48,846,537</u>	<u>\$ 4,939,221</u>

Midway City Sanitary District's net position increased by \$4,939,221 from fiscal year 2014-2015 to 2015-2016. Looking at this table at June 30, 2016 and June 30, 2015, you can see that most of the change in net position was in capital assets, which increased \$1,591,443. There is no longer any, debt related, restricted assets as the District used it to pay off early its COP debt obligation in July 2015.

Unrestricted net position (those assets that can be used to finance day-to-day operations) decreased (\$591,103) and the net investment in capital assets, increased by \$6,509,553.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2016

**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, 2016	For the Year Ended June 30, 2015	Dollar Change
Operating revenues	\$ 7,787,882	\$ 7,748,444	\$ 39,438
Nonoperating revenues	3,588,709	2,974,412	614,297
Total Revenues	<u>11,376,591</u>	<u>10,722,856</u>	<u>653,735</u>
Operating expenses	5,232,884	5,799,539	(566,655)
Depreciation	1,071,137	701,001	370,136
Interest expense	42,836	269,973	(227,137)
Loss in Sale of Capital Assets	90,513	-	90,513
Total Expenses	<u>6,437,370</u>	<u>6,770,513</u>	<u>(333,143)</u>
Net Position before capital contributions	<u>4,939,221</u>	<u>3,952,343</u>	<u>986,878</u>
Change in Net Position	4,939,221	3,952,343	986,878
Net Position at Beginning of Year	48,846,537	47,797,988	1,048,549
Prior Period Adjustment	<u>-</u>	<u>(2,903,804)</u>	<u>2,903,804</u>
Net Position at End of Year	<u>\$ 53,785,758</u>	<u>\$ 48,846,537</u>	<u>\$ 4,939,221</u>

The District's total revenues increased by \$653,735 from fiscal year 2015 to 2016. A majority of the increase is attributed to pass-through funds due to the continued dissolution of the City of Westminster and the County of Orange Redevelopment Agencies as-well-as additional franchise fee revenue received in fiscal year 2015-2016.

**Capital Assets**

Capital assets consist of the following at June 30, 2016 and June 30, 2015, respectively:

	June 30, 2016	June 30, 2015	Dollar Change
Capital assets not being depreciated:			
Land	\$ 92,948	\$ 92,948	\$ -
Construction in Progress	<u>-</u>	<u>2,795,624</u>	<u>(2,795,624)</u>
Total Capital Assets, Not Being Depreciated	<u>92,948</u>	<u>2,888,572</u>	<u>(2,795,624)</u>

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2016

**Capital Assets (Continued)**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Dollar Change</u>
Capital assets being depreciated:			
Building and improvements	\$ 4,443,793	\$ 1,113,700	\$ 3,330,093
Pumping stations	5,297,054	5,297,054	-
Gravity lines and force mains	17,349,940	17,267,386	82,554
Resident containers	748,946	3,199,837	(2,450,891)
Refuse vehicles	3,405,669	2,767,060	638,609
Other vehicles	647,963	645,734	2,229
Other equipment	677,158	681,379	(4,221)
Total	<u>32,570,523</u>	<u>30,972,150</u>	<u>1,598,373</u>
Less: Accumulated Depreciation	<u>(8,196,549)</u>	<u>(11,014,528)</u>	<u>2,817,979</u>
 Total Capital Assets Being Depreciated, Net	 <u>24,373,974</u>	 <u>19,957,622</u>	 <u>4,416,352</u>
 Total Capital Assets, Net	 <u>\$ 24,466,922</u>	 <u>\$ 22,846,194</u>	 <u>\$ 1,620,728</u>

The major capital asset additions and deletions for fiscal year ended June 30, 2016, totaled \$1,598,373, which included the purchase of seven compressed natural gas solid waste trucks, completion of the CNG station, completion of the County sewer relocation project at Newland/Oberlin, as-well-as the disposal of seven diesel solid waste trucks, the disposal of \$2,450,891 in discarded or fully depreciated solid waste carts. There was no construction in progress projects as of June 30, 2016 for the District.

Additional information on the District's capital assets can be found in Note 3 beginning on page 25 of this report.

**Long-Term Liabilities and Debt Administration**

The District's long-term liabilities and certificate of participation outstanding was \$192,227 at June 30, 2016.

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance at June 30, 2016</u>	<u>Payable Within One Year</u>
Certificates of participation	\$ 5,900,000	\$ -	\$ (5,900,000)	\$ -	\$ -
Bond discount	(31,946)	-	31,946	-	-
Cert. of participation, net	<u>5,864,054</u>	<u>-</u>	<u>(5,868,054)</u>	<u>-</u>	<u>-</u>
Compensated absences	<u>179,491</u>	<u>164,760</u>	<u>(152,024)</u>	<u>192,227</u>	<u>152,024</u>
 Totals	 <u>\$ 6,047,545</u>	 <u>\$ 164,760</u>	 <u>\$ (6,020,078)</u>	 <u>\$ 192,227</u>	 <u>\$ 152,024</u>

Additional information on the District's long-term debt can be found in Note 4 beginning on page 26 of this report.



# MIDWAY CITY SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2016

### **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 current commercial, industrial and nonresidential sewer rates range from \$119.49 (very low demand) to \$459.96 (very high demand), per business unit per parcel. The District has an exclusive franchise agreement with CR&R Inc. and Rainbow Environmental Services to provide solid waste and recycling services to the District's commercial and industrial businesses as-well-as bin services for multifamily residences and mobile home parks. Maximum rates are set per the franchise agreement and are adjusted annually per any increase in the County landfill costs and the consumer price index. Effective July 1, 2016 these service rates will increase by 2.03% for CPI, Service Fees and Landfill cost Increases

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, the installation of an alternative energy infrastructure upgrades, and continue to 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.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 28,954,383
Accounts receivable	173,408
Taxes receivable	97,661
Interest receivable	36,781
Inventory	69,063
TOTAL CURRENT ASSETS	<u>29,331,296</u>

NONCURRENT ASSETS:

Other post-employment benefit (OPEB) asset	1,674,413
Capital assets:	
Not depreciable	92,948
Depreciable, net	<u>24,373,974</u>
TOTAL NONCURRENT ASSETS	<u>26,141,335</u>

TOTAL ASSETS	<u>55,472,631</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>257,031</u>
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LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	319,257
Accrued payroll expenses	65,493
Compensated absences, current portion	<u>152,024</u>
TOTAL CURRENT LIABILITIES	<u>536,774</u>

LONG-TERM LIABILITIES:

Compensated absences, net of current portion	40,203
Net pension liability	<u>909,464</u>
TOTAL LONG-TERM LIABILITIES	<u>949,667</u>

TOTAL LIABILITIES	<u>1,486,441</u>
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DEFERRED INFLOWS OF RESOURCES:

Deferred amounts from pension plans	<u>457,463</u>
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NET POSITION:

Net investment in capital assets	24,466,922
Unrestricted	<u>29,318,836</u>
TOTAL NET POSITION	<u>\$ 53,785,758</u>

See accompanying notes to financial statements.

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

For the year ended June 30, 2016

OPERATING REVENUES:	
Service fees	\$ 6,769,470
Franchise fees	917,167
Permit, inspection and connection fees	<u>101,245</u>
TOTAL OPERATING REVENUES	<u>7,787,882</u>
OPERATING EXPENSES:	
Solid waste disposal	2,999,814
General administration	1,514,721
Sewage collection	718,349
Depreciation	<u>1,071,137</u>
TOTAL OPERATING EXPENSES	<u>6,304,021</u>
OPERATING INCOME	<u>1,483,861</u>
NONOPERATING REVENUES (EXPENSES):	
Property taxes	3,146,383
Investment income	124,273
Other revenues	318,053
Loss on sale of capital assets	(90,513)
Interest expense	<u>(42,836)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,455,360</u>
CHANGE IN NET POSITION	4,939,221
NET POSITION AT BEGINNING OF YEAR	<u>48,846,537</u>
NET POSITION AT END OF YEAR	<u><u>\$ 53,785,758</u></u>

See accompanying notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 7,691,186
Payments to suppliers	(4,050,557)
Payments to employees	(1,671,695)
Other revenues	<u>318,053</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,286,987</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	<u>3,180,600</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>3,180,600</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(2,851,933)
Proceeds from sale of capital assets	69,556
Principal paid on certificates of participation	(5,900,000)
Interest and fiscal charges paid on certificates of participation	<u>(126,840)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,809,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>107,755</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>107,755</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,233,875)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,188,258</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 28,954,383</u></u>

See accompanying notes to financial statements.

(Continued)

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2016

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

Operating income	\$ 1,483,861
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,071,137
Other revenues	318,053
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
(Increase) decrease in accounts receivable	(96,696)
(Increase) decrease in inventory	(69,063)
(Increase) decrease in net OPEB asset	29,285
(Increase) decrease in deferred outflows of resources from pension plans	1,678,965
Increase (decrease) in accounts payable	(420,559)
Increase (decrease) in accrued expenses	17,387
Increase (decrease) in compensated absences	12,736
Increase (decrease) in net pension liability	(1,380,375)
Increase (decrease) in deferred inflows of resources from pension plans	(357,744)
 Total adjustments	 803,126
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 2,286,987

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Amortization of bond discount	\$ 31,946
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See accompanying notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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, deferred outflows of resources, liabilities, and deferred inflows of resources (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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

b. Significant Accounting Policies (Continued):

**GASB Current Year Standards:**

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement 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*", was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for periods beginning after June 15, 2016, and did not impact the District.

GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*", was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

GASB Statement No. 82, "*Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73*", changed the measurement of covered payroll reported in required supplementary information and has been early implemented.



MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

b. Significant Accounting Policies (Continued):

**GASB Pending Accounting Standards:**

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future.

- GASB 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”*, the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB 77 - *“Tax Abatement Disclosure”*, effective for periods beginning after December 15, 2015.
- GASB 78 - *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”*, effective for periods beginning after December 15, 2015.
- GASB 79 - *“Certain External Investment Pools and Pool Participants”*, the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - *“Blending Requirements for Certain Component Units”*, effective for periods beginning after June 15, 2016.
- GASB 81 - *“Irrevocable Split-Interest Agreements”*, effective for periods beginning after December 15, 2016.
- GASB 82 - *“Pension Issues”*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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 future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. These items are the deferred outflows related to pensions. The first item is the deferred outflow for the differences between actual and expected experience. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years. The second item is the deferred outflow for the amount that is equal to employer contributions made after the measurement date of the net pension liability.

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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first item is a deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans' fiduciary net position. This amount is amortized over five years. The second item is a deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. The third item is a deferred inflow related to changes in assumptions for the pension liabilities. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.

**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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

b. Significant Accounting Policies (Continued):

**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.

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.

**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 to be cash and cash equivalents.

**Investments:**

Investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**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, 2016.

**Inventory:**

The District values its inventory at cost, using a method that approximates the first-in, first-out basis. The balance at June 30, 2016 is \$69,063.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

b. Significant Accounting Policies (Continued):

**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:	July 1
Due Dates:	First Installment - November 1 Second Installment - March 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

**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

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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

b. Significant Accounting Policies (Continued):

**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 a rate of 50% of employers' payable. At termination or retirement, all vacation and fifty percent of the sick leave accumulated is paid to the employee. Compensated absences totaled \$192,227 at June 30, 2016.

**Pensions:**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Estimates:**

The preparation of financial statements in accordance 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2016, consisted of the following:

Cash on hand	\$ 200
Deposits with financial institutions	441,896
Investments	<u>28,512,287</u>
 Total Cash and Investments	 <u>\$ 28,954,383</u>

**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 Government Sponsored			
Agency Securities	5 years	\$ 2,000,000	None
Certificates of Deposit	1 year	30% or \$1,000,000	None
California Local Agency Investment Fund	N/A	None	None
CalTRUST Investment Pool	N/A	None	None

N/A - Not Applicable

**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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk (Continued):**

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, 2016.

	<u>Maturity In Years</u>
	<u>Less Than 1 Year</u>
California Local Agency Investment Fund	\$ 27,229,072
CalTRUST Investment Pool	<u>1,283,215</u>
Total Investments	<u>\$ 28,512,287</u>

**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, 2016, for each investment type. Investments at June 30, 2016 consist of CalTRUST Investment Pool and California Local Agency Investment Fund (LAIF) which are not rated.

**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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

**Concentration of Credit Risk (Continued):**

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

**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.

**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.



MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

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.

**Fair Value Measurements:**

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

**Fair Value Measurements (Continued):**

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

The District's investment consists of CalTRUST and LAIF, which are valued at Level 2 based on information provided by CalTRUST and the State of California.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

3. CAPITAL ASSETS:

Capital assets consist of the following at June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 92,948	\$ -	\$ -	\$ 92,948
Construction in progress	<u>2,795,624</u>	<u>534,469</u>	<u>(3,330,093)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,888,572</u>	<u>534,469</u>	<u>(3,330,093)</u>	<u>92,948</u>
Capital assets, being depreciated:				
Building and improvements	1,113,700	3,330,093	-	4,443,793
Pumping stations	5,297,054	-	-	5,297,054
Gravity lines and force mains	17,267,386	82,554	-	17,349,940
Resident containers	3,199,837	-	(2,450,891)	748,946
Refuse vehicles	2,767,060	2,230,454	(1,591,845)	3,405,669
Other vehicles	645,734	2,229	-	647,963
Other equipment	<u>681,379</u>	<u>-</u>	<u>(4,221)</u>	<u>677,158</u>
Total capital assets, being depreciated	<u>30,972,150</u>	<u>5,645,330</u>	<u>(4,046,957)</u>	<u>32,570,523</u>
Less accumulated depreciation for:				
Buildings and improvements	(540,365)	(190,033)	-	(730,398)
Pumping stations	(805,592)	(132,426)	-	(938,018)
Gravity lines and force mains	(3,749,719)	(230,415)	-	(3,980,134)
Resident containers	(3,003,107)	(73,837)	2,450,891	(626,053)
Refuse vehicles	(1,702,343)	(417,614)	1,434,004	(685,953)
Other vehicles	(646,274)	(1,689)	-	(647,963)
Other equipment	<u>(567,128)</u>	<u>(25,123)</u>	<u>4,221</u>	<u>(588,030)</u>
Total accumulated depreciation	<u>(11,014,528)</u>	<u>(1,071,137)</u>	<u>3,889,116</u>	<u>(8,196,549)</u>
Total capital assets, being depreciated, net	<u>19,957,622</u>	<u>4,574,193</u>	<u>(157,841)</u>	<u>24,373,974</u>
Total capital assets, net	<u>\$ 22,846,194</u>	<u>\$ 5,108,662</u>	<u>\$ (3,487,934)</u>	<u>\$ 24,466,922</u>

Depreciation expense for the depreciable capital assets was \$1,071,137 in 2016.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

4. LONG-TERM LIABILITIES:

Long-term liabilities consist of the following at June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year	Due in More Than One Year
Certificates of participation	\$ 5,900,000	\$ -	\$ (5,900,000)	\$ -	\$ -	\$ -
Bond discount	(31,946)	-	31,946	-	-	-
Certificates of participation, net	5,864,054	-	(5,868,054)	-	-	-
Compensated absences	179,491	164,760	(152,024)	192,227	152,024	40,203
Totals	<u>\$ 6,047,545</u>	<u>\$ 164,760</u>	<u>\$ (6,020,078)</u>	<u>\$ 192,227</u>	<u>\$ 152,024</u>	<u>\$ 40,203</u>

**Certificates of Participation:**

The 2005 Series SS Certificates of Participation (the Certificates) were issued on November 29, 2005, for the purpose of financing the acquisition of certain sanitary sewer improvements by the District. The Certificates bore interest ranging from 3% to 4.375% and were payable semiannually on February 1 and August 1. The Certificates were issued with an original bond discount of \$89,874, which was amortized annually on a straight-line basis over the life of the bonds. The Certificates were due August 1, 2021. The District paid off the 2005 Certificates of Participation in full in August 2015.

5. DESIGNATIONS OF NET POSITION:

The designated balances of unrestricted net position established by the Board of Directors as of June 30, 2016, are as follows:

Vehicle replacement	\$ 1,358,893
Lift (pump) station and sewer lines	12,588,487
Orange County, Midway City reserve	1,280,990
Buildings, Equipment and Facilities	1,005,614
Operating	<u>10,995,088</u>
Total Designations	27,229,072
Undesignated net position	<u>2,089,764</u>
Total Unrestricted Net Position	<u>\$ 29,318,836</u>

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS:

a. General Information about the Pension Plans:

**Plan Descriptions:**

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plans (the Plans), cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided:**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier I Prior to July 1, 2009	Tier II On or After July 1, 2009	Tier III - PEPRA On or After January 1, 2013
Hire date			
Benefit formula	3.0% @60	2% @55	2% @62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 67	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	16.768%	11.522%	6.237%

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

a. General Information about the Pension Plans (Continued):

**Contributions:**

Section 20814(c) 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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	<u>\$ 909,464</u>

The District's net pension liability for each 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 District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Contributions:**

The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.09265%
Proportion - June 30, 2015	0.03315%
Change - Increase (Decrease)	-0.05950%

For the year ended June 30, 2016, the District recognized pension expense of \$182,751. At June 30, 2016, the District 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	\$ 241,905	\$ -
Differences between actual and expected experience	15,126	-
Change in assumptions	-	(143,104)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(242,620)
Net differences between projected and actual earnings on plan investments	-	(71,739)
Total	<u>\$ 257,031</u>	<u>\$ (457,463)</u>

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

\$241,905 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 ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2017	\$ (192,667)
2018	(189,402)
2019	(151,968)
2020	91,700
2021	-
Thereafter	-



MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Actuarial Assumptions:**

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

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

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

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

**Change of Assumptions:**

GASB 69, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Discount Rate (Continued):**

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:**

The following presents the District's proportionate share of the net pension liability for the Plans, calculated using the discount rate for each Plan, as well as what the District'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:

1% Decrease	Miscellaneous
Net Pension Liability	6.65%
	\$ 2,742,649
Current Discount Rate	7.65%
Net Pension Liability	\$ 909,464
1% Increase	8.65%
Net Pension Liability	\$ (604,044)

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Pension Plans Fiduciary Net Position:**

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

- c. Payable to the Pension Plans:

At June 30, 2016, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

7. 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 for 2016 and 2015 was \$1,428 and \$1,425, respectfully. 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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. 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, 2016:

Annual required contribution	\$ 37,011
Interest on net OPEB asset	(119,259)
Adjustment to annual required contribution	<u>148,544</u>
Annual OPEB cost	66,296
Contributions (including benefits paid)	<u>(37,011)</u>
Decrease in net OPEB asset	29,285
Net OPEB Asset - beginning of year	<u>(1,703,698)</u>
Net OPEB Asset - end of year	<u>\$ (1,674,413)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for the years ended June 30, 2016, 2015, and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Asset
6/30/14	\$ 297,402	736%	\$ (1,892,290)
6/30/15	317,435	41%	(1,703,698)
6/30/16	66,296	56%	(1,674,413)

**Funding Status and Funding Progress:**

As of July 1, 2015, the most recent actuarial valuation date, the plan was 132.11% funded. The actuarial accrued liability for benefits was \$2,839,996, and the actuarial value of assets was \$3,751,818, resulting in a negative actuarial accrued liability (UAAL) of (\$911,822). The covered payroll (annual payroll of active employees covered by the plan) was \$1,550,911 and the ratio of the UAAL to the covered payroll was (58.79%).

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.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

**Funding Status and Funding Progress (Continued):**

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 7.00% 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 4%, inflation rate of 2.75%, and payroll increase of 2.75%. The District is using the level of percentage of payroll method to allocate amortization cost year by year and a closed period of 30 years for the initial unfunded actuarial accrued liability and an open 24 year amortization for any residual unfunded actuarial accrued liability.

8. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2013, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, property, automobile, personal liability for Board Members, employment practices, workers' compensation, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

8. RISK MANAGEMENT (CONTINUED):

At June 30, 2016, the District's insurance coverages were as follows:

Property Loss - Buildings and business personal property insured up to \$1,000,000,000 with \$2,000 deductible per occurrence limited to insurable value.

General Liability - Insured up to \$10,000,000 per occurrence and a \$500 deductible per occurrence.

Personal Liability for Board Members - Insured up to \$500,000 per occurrence with \$500 deductible per occurrence.

Employment Practices - Insured up to \$10,000,000 per occurrence with the first \$10,000 per of claim or suit for employee discipline, demotion, reassignment or termination being covered, amounts in excess of \$10,000 up to \$110,000 the District is responsible of 50% per claim or suit but limited to \$50,000. All other incidents have \$0 deductible per occurrence.

Employee Benefits - Insured up to \$10,000,000 per occurrence with no deductible.

Employee Dishonesty - Insured up to \$1,000,000 per occurrence with no deductible.

Auto - Insured up to \$10,000,000 per occurrence with \$1,000 deductible per occurrence.

Auto Physical Damage - Insured for a total property value of \$5,148,613 with a \$500/\$1,000 deductible per occurrence.

Uninsured/Underinsured Motorists - Insured up to \$1,000,000 per accident with \$1,000 deductible per occurrence.

Public Officials' and Directors' Errors - Insured up to \$10,000,000 per occurrence with no deductible.

Trailer - Insured for a total property value of \$29,045 with a \$250 deductible per occurrence.

Boiler and Machinery - Insured up to \$100,000,000 per occurrence with \$1,000 deductible per occurrence limited to insurable value.

Workers' Compensation - Insured up to the statutory limits with no deductible.

Cyber - Insured up to \$2,000,000 per occurrence with \$25,000 deductible per occurrence limited to insurable value.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

8. RISK MANAGEMENT (CONTINUED):

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.

9. 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.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016, have been evaluated for possible adjustments to the financial statements or disclosure as of October 3, 2016, which is the date these financial statements were available to be issued.



**REQUIRED SUPPLEMENTARY INFORMATION**

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years\*

Fiscal Year Ended	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement Period	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.03315%	0.03680%
Plan's Proportionate Share of the Net Pension Liability	\$ 909,464	\$ 2,289,839
Plan's Covered Employee Payroll	\$ 1,528,172	\$ 1,463,364
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	59.51%	156.48%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	93.24%	489.23%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 434,162	\$ 302,937

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

GASB 69, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years\*

Fiscal year ended	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 241,905	\$ 235,999
Contributions in relation to the actuarially determined contributions	<u>(241,905)</u>	<u>(1,935,999)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,700,000)</u>
Covered - employee payroll	\$ 1,550,911	\$ 1,528,172
Contributions as a percentage of covered - employee payroll	15.60%	126.69%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	3.30% to 14.20% depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2%@55 and 2%@60), 52 years (2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. **

\* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) included the same actuarial assumpt

\*\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method.

MIDWAY CITY SANITARY DISTRICT

OTHER POST-EMPLOYMENT BENEFIT PLAN -  
SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2016

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]
7/1/2011	\$ 526,085	\$ 3,451,560	\$ 2,925,475	15.24%	\$ 1,592,879	183.66%
7/1/2013	997,620	3,187,342	2,189,722	31.30%	1,505,332	145.46%
7/1/2015	3,751,818	2,839,996	(911,822)	132.11%	1,550,911	-58.79%