

MIDWAY CITY SANITARY DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2012

MIDWAY CITY SANITARY DISTRICT

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For the year ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Midway City Sanitary District
Westminster, California

We have audited the accompanying statement of net assets of the Midway City Sanitary District (the District) at June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midway City Sanitary District as of June 30, 2012 and the results of its changes in financial position and cash flows for the year then ended in conformity 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.

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, identified as required supplementary information 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 Dick Evans LLP

Irvine, California
September 6, 2012

MIDWAY CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. 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 Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements.

The statement of net assets includes all the District's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The statement of net assets 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 assets presents information which shows how the District's net assets 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 assets 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 assets 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, 2012

Financial Highlights

- The District's net assets increased by \$3,905,516.
- During the year, the District's total revenues were \$10,480,013 while expenses totaled \$6,574,497.

Financial Analysis of the District

Net Assets

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Dollar Change</u>
<u>Assets:</u>			
Current assets	\$ 26,074,138	\$ 22,076,675	\$ 3,997,463
Restricted assets	979,029	979,029	-
Capital assets, net	20,562,671	21,248,240	(685,569)
Other assets	<u>281,337</u>	<u>343,402</u>	<u>(62,065)</u>
Total Assets	<u>47,897,175</u>	<u>44,647,346</u>	<u>3,249,829</u>
<u>Liabilities:</u>			
Current liabilities	1,091,114	1,107,152	(16,038)
Noncurrent liabilities	<u>7,400,797</u>	<u>8,040,446</u>	<u>(639,649)</u>
Total Liabilities	<u>8,491,911</u>	<u>9,147,598</u>	<u>(655,687)</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	13,836,638	12,736,104	1,100,534
Restricted net assets	979,029	979,029	-
Unrestricted	<u>24,589,597</u>	<u>21,784,615</u>	<u>2,804,982</u>
Total Net Assets	<u>\$ 39,405,264</u>	<u>\$ 35,499,748</u>	<u>\$ 3,905,516</u>

Midway City Sanitary District's net assets increased by \$3,905,516 from fiscal year 2011 to 2012. Looking at this table at June 30, 2012 and June 30, 2011, you can see that most of the change in net assets position was in current assets, which increased \$3,997,463. 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 assets (those that can be used to finance day-to-day operations) increased \$2,804,982 and the capital assets net of related debt, increased by \$1,100,534.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2012

Financial Analysis of the District (Continued)

Revenues, Expenses and Changes in Net Assets

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

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	Dollar Change
Operating revenues	\$ 7,426,435	\$ 7,170,045	\$ 256,390
Nonoperating revenues	3,053,578	1,979,960	1,073,618
Total Revenues	<u>10,480,013</u>	<u>9,150,005</u>	<u>1,330,008</u>
Operating expenses	5,480,955	5,899,499	(418,544)
Depreciation and amortization expense	755,177	741,628	13,549
Interest expense	338,365	384,716	(46,351)
Total Expenses	<u>6,574,497</u>	<u>7,025,843</u>	<u>(451,346)</u>
Change in Net Assets	3,905,516	2,124,162	1,781,354
Net Assets at Beginning of Year	<u>35,499,748</u>	<u>33,375,586</u>	<u>2,124,162</u>
Net Assets at End of Year	<u>\$ 39,405,264</u>	<u>\$ 35,499,748</u>	<u>\$ 3,905,516</u>

The District's total revenues increased by \$1,330,008 from fiscal year 2011 and 2012. 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, 2012 and June 30, 2011, respectively:

	June 30, 2012	June 30, 2011	Dollar Change
Capital assets not being depreciated:			
Land	\$ <u>92,948</u>	\$ <u>92,948</u>	\$ <u>-</u>
Total Not Being Depreciated	<u>92,948</u>	<u>92,948</u>	<u>-</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2012

Capital Assets (Continued)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Dollar Change</u>
Capital assets being depreciated:			
Building and improvements	\$ 685,475	\$ 685,475	\$ -
Pumping stations	5,297,054	5,297,054	-
Gravity lines and force mains	17,153,483	17,146,469	7,014
Resident containers	3,199,837	3,199,837	-
Refuse vehicles	2,359,336	2,498,403	(139,067)
Other vehicles	656,670	656,670	-
Other equipment	563,269	563,269	-
Total	<u>29,915,124</u>	<u>30,047,177</u>	<u>(132,053)</u>
Less: Accumulated Depreciation	<u>(9,445,401)</u>	<u>(8,891,885)</u>	<u>(553,516)</u>
 Net Capital Assets Being Depreciated	 <u>20,469,723</u>	 <u>21,155,292</u>	 <u>(685,569)</u>
 Net Capital Assets	 <u>\$ 20,562,671</u>	 <u>\$ 21,248,240</u>	 <u>\$ (685,569)</u>

The major capital asset additions for fiscal year ended June 30, 2012, totaled \$48,744, which included the refurbishment and rehabilitation of two solid waste trucks for \$41,730, manhole covers for \$7,014 and disposal of one solid waste truck (\$180,797).

Additional information on the District's capital assets can be found in Note 4 beginning on page 23 of this report.

Debt Administration

The District's certificate of participation outstanding was \$7,960,000 at June 30, 2012.

	Balance at <u>June 30, 2011</u>	<u>Additions</u>	Payments/ <u>Deletions</u>	Balance at <u>June 30, 2012</u>	Payable Within <u>One Year</u>
Certificates of participation	\$ 8,595,000	\$ -	\$ (635,000)	\$ 7,960,000	\$ 660,000
Bond discount	<u>(55,918)</u>	<u>-</u>	<u>5,993</u>	<u>(49,925)</u>	<u>-</u>
 Total Certifications of Participation	 <u>\$ 8,539,082</u>	 <u>\$ -</u>	 <u>\$ (629,007)</u>	 <u>\$ 7,910,075</u>	 <u>\$ 660,000</u>

Additional information on the District's long-term debt can be found in Note 6 beginning on page 22 of this report.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2012

Economic Factors and Next Year's Budget and Rates

In June 2012, 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 \$116.27 (very low demand) to \$447.56 (very high demand), per business unit per parcel.

These annual user fees will assist the District in undertaking capital improvement projects, including the replacement of pump stations and the upsizing and replacing of sanitary sewer pipelines in the District.

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 ASSETS

June 30, 2012

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 25,394,032
Accounts receivable	46,761
Taxes receivable	589,214
Interest receivable	20,440
Prepaid expenses	23,691
Restricted:	
Cash and cash equivalents	979,029
TOTAL CURRENT ASSETS	<u>27,053,167</u>

NONCURRENT ASSETS:

Net OPEB asset	76,324
Bond issuance costs, net	205,013
Capital assets:	
Non-depreciabale	92,948
Depreciable, net	20,469,723
TOTAL NONCURRENT ASSETS	<u>20,844,008</u>

TOTAL ASSETS	<u>47,897,175</u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	260,021
Accrued expenses	34,265
Accrued interest payable	136,828
Certificates of participation, current portion	660,000
TOTAL CURRENT LIABILITIES	<u>1,091,114</u>

LONG-TERM LIABILITIES:

Compensated absences	150,722
Certificates of participation, net of current portion	7,250,075
TOTAL LONG-TERM LIABILITIES	<u>7,400,797</u>

TOTAL LIABILITIES	<u>8,491,911</u>
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NET ASSETS:

Invested in capital assets, net of related debt	13,836,638
Restricted for debt service	979,029
Unrestricted	24,589,597
TOTAL NET ASSETS	<u>\$ 39,405,264</u>

See independent auditors' report and notes to financial statements.

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

For the year ended June 30, 2012

OPERATING REVENUES:	
Service fees	\$ 6,706,697
Franchise fees	698,208
Permit, inspection and connection fees	<u>21,530</u>
TOTAL OPERATING REVENUES	<u>7,426,435</u>
OPERATING EXPENSES:	
Solid waste disposal	3,213,719
General administration	1,539,577
Sewage collection	727,659
Depreciation and amortization	<u>755,177</u>
TOTAL OPERATING EXPENSES	<u>6,236,132</u>
OPERATING INCOME	<u>1,190,303</u>
NONOPERATING REVENUES (EXPENSES):	
Property taxes	2,882,611
Investment income	86,574
Other revenue	84,227
Gain on sale of capital assets	166
Interest expense	<u>(338,365)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,715,213</u>
CHANGE IN NET ASSETS	3,905,516
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED (NOTE 12)	<u>35,499,748</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 39,405,264</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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 7,417,978
Payments to suppliers	(3,952,286)
Payments to employees	(1,628,335)
Other revenues	84,227

NET CASH PROVIDED BY OPERATING ACTIVITIES	1,921,584
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CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:

Property taxes received	2,563,057
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NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,563,057
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CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(48,744)
Proceeds from sale of capital assets	3,903
Principal paid on certificates of participation	(635,000)
Interest paid on certificates of participation	(342,294)

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,022,135)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	2,206,143
Interest received on investments	89,200

NET CASH PROVIDED BY INVESTING ACTIVITIES	2,295,343
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NET INCREASE IN CASH AND CASH EQUIVALENTS	5,757,849
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,615,212
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 26,373,061
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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, 2012

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

Operating income	<u>\$ 1,190,303</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	755,177
Other revenues	84,227
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,457)
(Increase) decrease in prepaid expenses	(6,584)
(Increase) decrease in net OPEB asset	(76,324)
Increase (decrease) in accounts payable	(35,612)
Increase (decrease) in accrued expenses	4,496
Increase (decrease) in compensated absences	<u>14,358</u>
 Total adjustments	 <u>731,281</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 1,921,584</u></u>

CASH AND CASH EQUIVALENTS -
FINANCIAL STATEMENT CLASSIFICATION:

Current assets	\$ 25,394,032
Restricted assets	<u>979,029</u>
 TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	 <u><u>\$ 26,373,061</u></u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Amortization of bond deferred charges	<u><u>\$ 30,594</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, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization:

The Midway City Sanitary District ("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 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.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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”. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Net Assets:

GASB Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board, “*Basic Financial Statements - and Management’s Discussion and Analysis - For State and Local Governments*”, established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

See independent auditors’ report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

b. Significant Accounting Policies (Continued):

Net Assets (Continued):

These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources based on the Board’s discretion.

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, and investment income, 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.

See independent auditors’ report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

b. Significant Accounting Policies (Continued):

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, 2012.

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, 2012

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

b. Significant Accounting Policies (Continued):

Proposition 1A Borrowing by the State of California:

Under the provisions of Proposition 1A and as part of the 2009 - 10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. This borrowing by the State of California totals \$113,778 at June 30, 2012 and is included in taxes receivable in the accompanying financial statements.

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

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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 termination or retirement, all vacation and fifty percent of the sick leave accumulated is paid to the employee. Compensated absences totaled \$150,722 at June 30, 2012.

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.

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, 2012 are reported in the accompanying statement of net assets as follows:

Current Assets:

Cash and cash equivalents	\$ 25,394,032
Restricted cash and cash equivalents	<u>979,029</u>
Total Cash and Investments	<u>\$ 26,373,061</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments (Continued):

Cash and investments as of June 30, 2012 consisted of the following:

Cash on hand	\$ 200
Deposits with financial institutions	1,114,974
Investments	<u>25,257,887</u>
 Total Cash and Investments	 <u>\$ 26,373,061</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 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, 2012

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, 2012.

	<u>Maturity In Years</u>
	<u>Less Than 1 Year</u>
California Local Agency Investment Fund (LAIF)	\$ 23,040,172
CalTRUST Investment Pool	1,238,686
Held by Bond Trustee:	
Money Market Mutual Fund	<u>979,029</u>
Total Cash and Investments	<u>\$ 25,257,887</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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, 2012 for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Not Rated</u>	<u>AAA</u>
California Local Agency Investment Fund (LAIF)	N/A	\$ 23,040,172	\$ 23,040,172	\$ -
CalTRUST Investment Pool	N/A	1,238,686	1,238,686	-
Held by Bond Trustee:				
Money Market Mutual Fund	A	<u>979,029</u>	<u>-</u>	<u>979,029</u>
		<u>\$ 25,257,887</u>	<u>\$ 24,278,858</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 anyone 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, 2012

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.

As of June 30, 2012, all of the District's deposits with financial institutions are federally insured. As of June 30, 2012, 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, 2012

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, 2012

4. CAPITAL ASSETS:

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

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 92,948	\$ -	\$ -	\$ 92,948
Total capital assets, not being depreciated	<u>92,948</u>	<u>-</u>	<u>-</u>	<u>92,948</u>
Capital assets, being depreciated:				
Building and improvements	685,475	-	-	685,475
Pumping stations	5,297,054	-	-	5,297,054
Gravity lines and force mains	17,146,469	7,014	-	17,153,483
Resident containers	3,199,837	-	-	3,199,837
Refuse vehicles	2,498,403	41,730	(180,797)	2,359,336
Other vehicles	656,670	-	-	656,670
Other equipment	<u>563,269</u>	<u>-</u>	<u>-</u>	<u>563,269</u>
Total capital assets, being depreciated	<u>30,047,177</u>	<u>48,744</u>	<u>(180,797)</u>	<u>29,915,124</u>
Less accumulated depreciation for:				
Buildings and improvements	(331,126)	(27,932)	-	(359,058)
Pumping stations	(275,888)	(132,426)	-	(408,314)
Gravity lines and force mains	(2,833,103)	(228,705)	-	(3,061,808)
Resident containers	(2,683,248)	(84,064)	-	(2,767,312)
Refuse vehicles	(1,783,015)	(171,808)	177,060	(1,777,763)
Other vehicles	(424,556)	(47,982)	-	(472,538)
Other equipment	<u>(560,949)</u>	<u>(37,659)</u>	<u>-</u>	<u>(598,608)</u>
Total accumulated depreciation	<u>(8,891,885)</u>	<u>(730,576)</u>	<u>177,060</u>	<u>(9,445,401)</u>
Total capital assets, being depreciated, net	<u>21,155,292</u>	<u>(681,832)</u>	<u>(3,737)</u>	<u>20,469,723</u>
Total capital assets, net	<u>\$ 21,248,240</u>	<u>\$ (681,832)</u>	<u>\$ (3,737)</u>	<u>\$ 20,562,671</u>

Depreciation expense for the depreciable capital assets was \$730,576 in 2012.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

5. BOND ISSUE COSTS:

Bond issue costs totaled \$369,030, net of accumulated amortization expense of \$164,017 as of June 30, 2012. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense was \$24,601 for the year ended June 30, 2012.

6. LONG-TERM LIABILITIES:

Long-term liabilities consist of the following at June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year	Due in More Than One Year
Certificates of participation	\$ 8,595,000	\$ -	\$ (635,000)	\$ 7,960,000	\$ 660,000	\$ 7,300,000
Bond discount	(55,918)	-	5,993	(49,925)	-	(49,925)
Certificates of Participation, net	8,539,082	-	(629,007)	7,910,075	660,000	7,250,075
Compensated absences	136,364	14,358	-	150,722	-	150,722
Totals	<u>\$ 8,675,446</u>	<u>\$ 14,358</u>	<u>\$ (629,007)</u>	<u>\$ 8,060,797</u>	<u>\$ 660,000</u>	<u>\$ 7,400,797</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 \$ 7,960,000 at June 30, 2012. Debt service requirements on the certificates of participation as of June 30, 2012, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 660,000	\$ 316,178	\$ 976,178
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 - 2022	<u>4,390,000</u>	<u>491,584</u>	<u>4,881,584</u>
Subtotal	7,960,000	1,802,041	9,762,041
Less: Discount	(49,925)	-	(49,925)
Total	<u>\$ 7,910,075</u>	<u>\$ 1,802,041</u>	<u>\$ 9,712,116</u>

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

7. DESIGNATIONS OF NET ASSETS:

The designated balances of unrestricted net assets established by the Board of Directors as of June 30, 2012, are as follows:

Vehicle replacement	\$ 1,095,153
Other post employment benefits	108,068
Sewer lines	6,800,506
Redevelopment fund	582,255
Fueling station	2,202,044
Debt payoff	<u>3,002,787</u>
Total Designations	<u>\$ 13,790,813</u>

8. DEFINED BENEFIT PENSION PLAN:

Plan Description:

The District participates in the 3% at 60 (Tier I) and 2% at 55 (Tier II) 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 and Tier II are required to contribute 8% and 7%, respectively, of their annual covered salary, 7% for Tier I and 5% for Tier II of which the District pays on behalf of the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal years ended June 30, 2012, 2011 and 2010 for Tier I were 14.826%, 12.725% and 12.079%, respectively. The required employer contribution rate for the fiscal years ended June 30, 2012, 2011 and 2010 for Tier II were 7.684%, 7.740% and 8.697%, respectively. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's total contributions for both Tiers for the years ended June 30, 2012, 2011 and 2010 were \$292,914, \$311,642 and \$278,141, respectively, which were equal to the required contributions each year.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

9. 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 \$1,250 for 2011, increased to \$1,300 for 2012. 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. Employees hired prior to July 1, 2009 are covered under the 3% at age 60 retirement plan. Those hired after June 30, 2009 are covered by the 2% at age 55 plan.

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.

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, 2012:

Annual required contribution	\$ 341,345
Interest on net OPEB obligation	-
Investment earning, net of expenses	-
Annual OPEB cost	<u>341,345</u>
Contributions (including benefits paid)	<u>(417,669)</u>
Decrease in net OPEB obligation	(76,324)
Net OPEB Obligation (Asset) - beginning of year as restated in Note 12	<u>-</u>
Net OPEB Obligation (Asset) - end of year	<u><u>\$ (76,324)</u></u>

The net OPEB asset of \$76,324 at June 30, 2012 is included in noncurrent assets.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

Funding Policy and Annual OPEB Costs (Continued):

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, 2012, 2011 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Asset)
6/30/10	\$ 347,540	100%	\$ -
6/30/11	347,540	100%	-
6/30/12	341,345	122%	(76,324)

Funding Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 17.98% funded. The actuarial accrued liability for benefits was \$2,925,475, and the actuarial value of assets was \$526,085, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,399,390. 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 150.63%.

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.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

Actuarial Methods and Assumptions (Continued):

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.

10. RISK MANAGEMENT:

The District is insured through Solid Waste Insurance Managers, Inc. At June 30, 2012, the District's insurance coverages were as follows:

Property Loss - Buildings and business personal property insured up to \$1,653,711 and \$468,650, 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.

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

Earthquake - Insured up to \$2,224,161 with \$25,000 deductible per occurrence, except for certain buildings, to which deductibles range from 1% to 10% per occurrence.

Flood - Insured up to \$2,224,161 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 \$2,401,162 with a \$2,500 deductible per occurrence.

Miscellaneous Tools - Insured up to \$15,000 with \$500 deductible per occurrence.

See independent auditors' report.

MIDWAY CITY SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

10. RISK MANAGEMENT (CONTINUED):

Insurance Coverages (Continued):

Electronic Data Processing - Hardware insured up to \$15,000 and software insured up to \$22,500 with \$500 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, disappearance and destruction 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.

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

11. 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.

12. RESTATEMENT OF NET ASSETS:

Net assets at July 1, 2011 was restated as follows:

Net assets, July 1, 2011, as originally reported	\$ 35,562,654
To adjust OPEB asset for overstatement of asset	<u>(62,906)</u>
Net assets, July 1, 2011, as restated	<u>\$ 35,499,748</u>

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, 2012

**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	2,925,475	2,399,390	17.98%	1,592,879	150.63%

See independent auditors' report and notes to basic financial statements.